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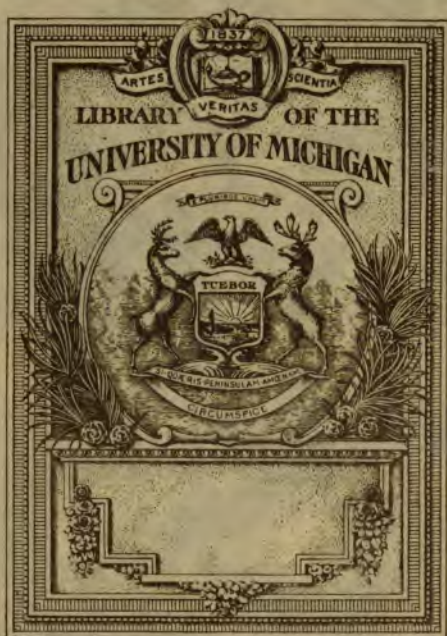
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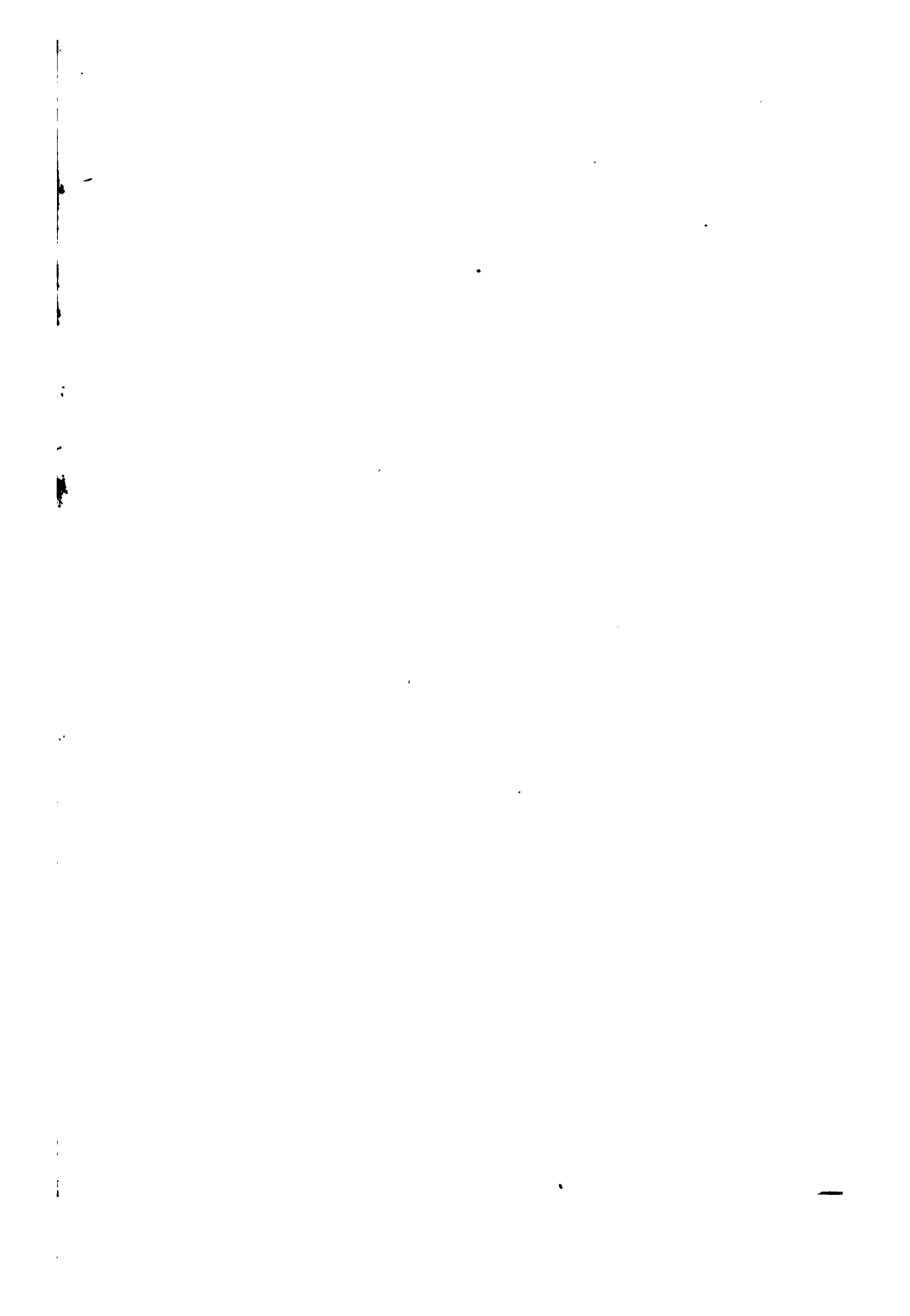
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Very truly yours
Charles H. Fowler

An
American Banking System

From
"National Issues of 1916"

By
CHARLES N. FOWLER

**Member of House of Representatives from 1895 to 1911,
and Chairman of the Banking and Currency
Committee for Eight Years**

With an introduction by
ELMER H. YOUNGMAN
Editor of The Bankers Magazine

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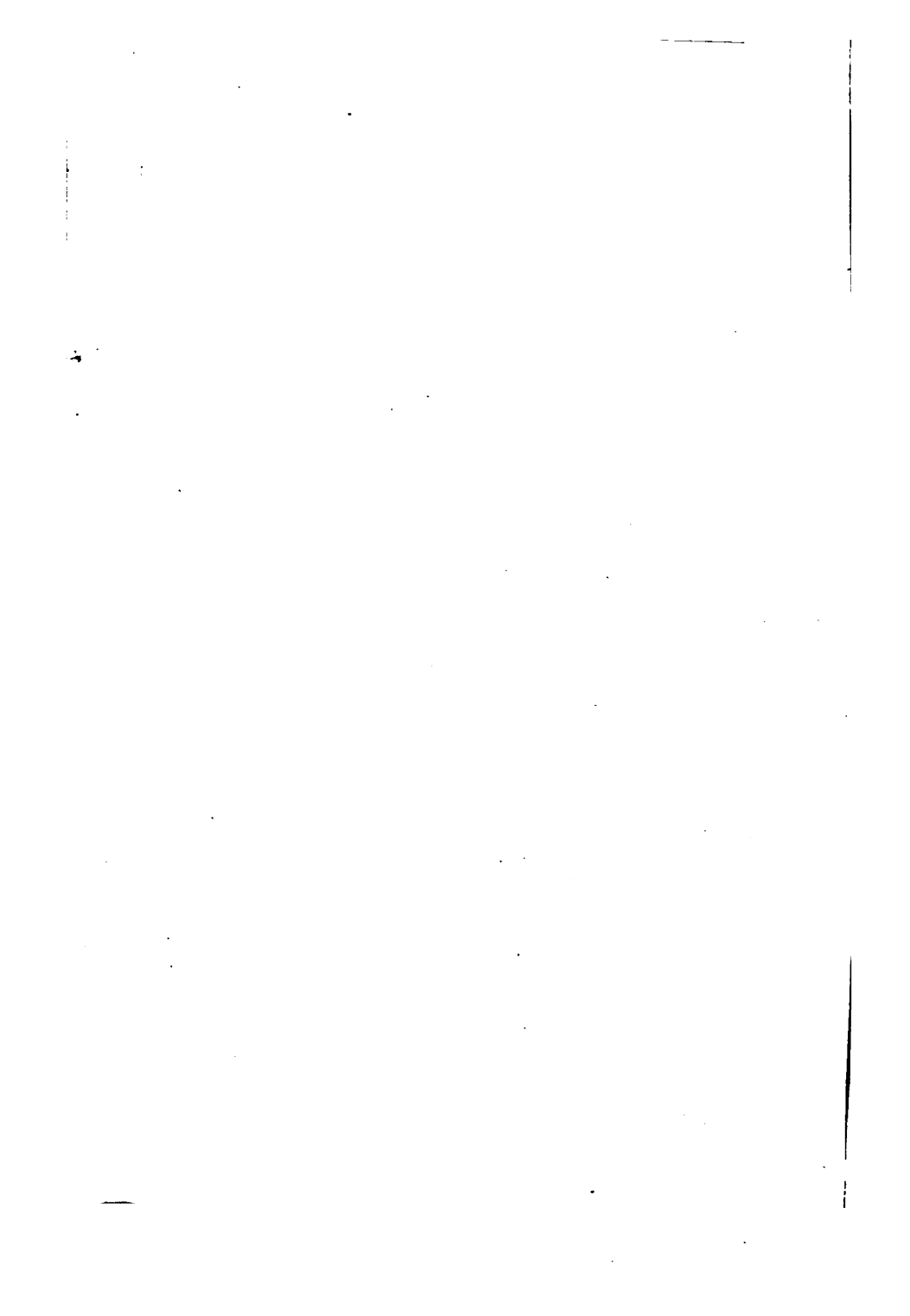
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INTRODUCTION

THE COMING BATTLE BETWEEN GOVERNMENT PAPER "MONEY" AND BANK CREDIT CURRENCY

THERE have been two memorable banking and monetary contests in the history of the United States. The first was between concentrated banking power as represented by the Bank of the United States on the one hand and Andrew Jackson on the other. The second was between the believers in a gold standard, under the leadership of McKinley, and the upholders of so-called "bimetallism," represented by William J. Bryan.

A third battle remains to be fought between Government paper "money" and bank credit currency.

FEDERAL RESERVE ACT NEVER APPROVED BY THE PEOPLE

In both the great contests which have previously taken place the matters in controversy were settled by being made issues in Presidential campaigns. Full and free discussion was had and the results have been accepted as a finality, so far as any questions can be finally settled.

The Act of December 23, 1913, commonly known as the Federal Reserve Act, while representing a culmination of many years of discussion of our banking

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problem, was not itself subjected to the test of a popular verdict. The declarations relating to banking and currency in the party platforms in the national campaign preceding its adoption had been rather tame and more or less general in character. They were not taken very seriously by anybody. Neither the Federal Reserve Act nor anything remotely resembling it had any place in the popular debates that preceded the election of November, 1912, which resulted in placing the Democratic party in power.

NEW ADMINISTRATION TAKES ADVANTAGE OF PREVIOUS AGITATION OF BANKING QUESTION

But no sooner was the new Administration installed in Washington than it became apparent that there was to be legislation of some kind on banking and currency.

For years, Mr. Fowler as Chairman of the Banking and Currency Committee of the House, had kept alive interest in the subject and had by his ability and persistence convinced the bankers and a good many other business men that legislation was necessary. Indeed, there was a more or less general recognition of the desirability of such legislation. Banking reform, for many years sneered at as visionary, had at last achieved a certain popularity. When the Democratic party came into office it at once resolved to take advantage of this situation and to appropriate to its own use whatever credit and popularity could be extracted from a banking bill of some kind. Immediately on the assembling of Congress a bill was hastily thrown together in the House. It was crude in many of its details, and before becoming a law was radically altered by the Senate.

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MR. BRYAN'S HAND SEEN IN FEDERAL RESERVE ACT

Before entering upon a consideration of this measure it will be well to revert to some rather recent political history, as this will make it possible to gain a clearer understanding of the monetary or currency theories which the Act embodies.

It has been seen already that Mr. William J. Bryan was in 1896 the leader of those who under the guise of "bimetallism" sought to commit the United States to the silver standard. This attempt was frustrated by the people of the United States. From the inauguration of McKinley on March 4, 1897, to March 4, 1913, the Democratic party was out of office. By a split in the Republican party in the 1912 campaign the Democrats were again restored to power, though polling a smaller popular vote than their opponents. On the fourth of March, 1913, Woodrow Wilson, the Democratic nominee, was inducted into office as President of the United States. He named as Secretary of State William J. Bryan, the former apostle of free silver at the ratio of sixteen to one and a defeated candidate for the Presidency. Mr. Bryan had been largely instrumental in nominating Mr. Wilson and as a prominent man in his party was fairly entitled to the recognition given him in the new cabinet.

Students of American politics understand that Mr. Bryan had held "Wall Street" and the bankers responsible for his failure to achieve his ambition to reach the Presidency. He did not realize that this failure was due to the fact that the people had taken an accurate measure of his economic views and had made up their minds that they were unsound and dangerous. Coupled with his unsound views regarding money, as illustrated by his fanatical advocacy of

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the free and unlimited coinage of silver in 1896, there was a fierce hatred of the wealthier classes of the country, whom he styled the "predatory rich." Much of the popularity he had won was based upon his denunciation of those who had accumulated a fortune, and it was but natural that in his aversion toward the rich he should include the banks of the country. They were a part of the great "money power" conjured up by his imagination and which must be restricted, regulated and punished in any banking legislation that might be enacted.

Without this preliminary statement it is impossible to get a proper perspective of the Federal Reserve Act, which represents Mr. Bryan's theories regarding money so far as he was able to apply them after his free silver defeat, and also throws about banks the restrictions he and his school of thinkers deem necessary in order to restrain the "money power" as supposedly represented by the banks of the country.

Before the Federal Reserve scheme was brought up in Congress, the stage was properly set for it. All the devices known to the creators of theatrical illusions were employed. The trusts were investigated and plausibility was given to the charge that they were fostered if not created by the great banking interests, and that through "interlocking directorates" the big banks and business concerns were practically controlled by a few financial magnates. After the popular emotion had been thus aroused, the next step was, of course, to devise a means of delivering the people from their oppressors. This was to be done by taking away from the banks a portion of their capital and handing it over to Government control, and at the same time take away from the bankers in some fifty cities the reserves which

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they held for other banks. The management of the capital and reserves thus taken over was to be transferred from the banks to the Government. Included in the bill was a plan for purchasing the bonds which the banks held as security for their circulating notes, and as these bonds were gradually absorbed by the Federal Reserve Banks which the bill created, the national banks of the country would in the course of time be deprived of the right of note issue, leaving this function solely to the Government of the United States; for while the notes provided for in the Federal Reserve Act are called Federal Reserve Notes, they are actually obligations of the United States.

In studying the Federal Reserve Act, particularly as regards its fundamental principles, it is absolutely essential to bear in mind that it embodies the monetary and banking theories of William J. Bryan.

It must be remembered that Mr. Bryan was possessed of the hallucination that there was some magical power in the fiat of Government that could take fifty cents' worth of silver and by stamping it one dollar, convert it into a real dollar equal to 25.8 grains of gold. That he was sincere in this belief, and that it amounted almost to a religious mania, no one who recalls the frenzy of Mr. Bryan and his followers in 1896 can for a moment doubt. The free silver campaign of that year actually had about it many of the characteristics of the hysterical outbursts that have marked fanatical religious movements in darker ages. Against the solid rock of sturdy American common sense this delusion was dashed in pieces. The whole question was threshed out in a national campaign and the popular verdict was decidedly in favor of the gold standard and against Mr. Bryan's theories with respect to money.

Nevertheless his opportunity was to come later,

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and he was not slow in taking advantage of it. The schism in the Republican party in 1912 brought his party back into power. He became a member of the new cabinet, as already stated, and through his long political activity had a large following in both houses of Congress. Indeed, the leaders were largely subservient to his views. When the Federal Reserve Bill was drafted, he and his lieutenants had a controlling hand in shaping it, and the bill as finally enacted undoubtedly represented the views of Mr. Bryan relating to money and banking so far as he was able under the circumstances to apply them. He and his party had slipped into power on no particular issue, but chiefly through Republican dissensions. With a pliant House and Senate and a President who was quite willing to have legislation of some kind on banking and currency, the Federal Reserve Act, which had never been made an issue as the gold standard was, became a law on December 23, 1913. In other words, one of the most vital measures ever enacted by Congress was passed without consulting the popular will.

GOVERNMENT FIAT IN THE NEW CURRENCY

Precisely the same delusion which Mr. Bryan had championed in 1896 made its reappearance in another form, and at his behest, in the Federal Reserve Act. This was the magical power of the Government fiat. From one end of the country to the other in 1896 he had passionately declared, in effect, that the Government could take fifty cents' worth of silver and make a dollar out of it. The people were given a chance to express their views on that heresy at the polls, and they condemned it. But in the Federal Reserve Act

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of 1913 Mr. Bryan and his followers enacted into law exactly the same delusion by endowing the Federal Reserve Notes with a function which should belong to gold alone—that of serving as the reserve on which the country's credit fabric is based. That this was done indirectly rather than directly does not alter the fact. Federal Reserve Notes were not made a legal tender, although Senator Owen, one of the authors of the Federal Reserve Act, declared that in his opinion they should be (and it may be considered as certain that they will be if allowed to remain in circulation), nor were they made a legal reserve for national banks, but by being made Government obligations their use as reserves for State banks and trust companies was made possible and indeed certain. How important this is may be understood from the fact that while there are only about 7,500 national banks, there are nearly 25,000 State banks scattered through the forty-eight States, and that in all of these States except California and New York the Federal Reserve Notes may be used in the State banks just the same as though they were gold coin. This displaces gold coin from the bank reserves, permits the building of one credit upon another, encouraging inflation, and by substituting a less valuable form of money for another of greater value, tends to drive the latter out of the country through the operation of Gresham's law.

This is the exact meaning of the latest application of Mr. Bryan's theories regarding money, as expressed in the Federal Reserve Act.

We have seen the basis of his hatred and distrust of banks, and the object he sought to obtain in transferring the control of a large part of the reserves and capital of the banks from the bankers to the Government.

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CENTRALIZATION OF BANKING AND CREDIT UNDER FEDERAL RESERVE SYSTEM

The declared object of the new law, as repeatedly stated by no less distinguished spokesman than President Wilson, was to "decentralize credit" and to "set credit free." Actually what was done was this:

Under the system existing in the year 1913, when the Federal Reserve Act became a law, there were, according to the Report of the Comptroller of the Currency for 1913, just 367 national banks acting as reserve agents for other banks. These 367 banks were located in fifty different cities. The three central reserve cities—New York, Chicago and St. Louis—had fifty-two of these banks, the remainder of the 367 being located in the forty-seven reserve cities. The Federal Reserve Act therefore "decentralized" the money of the country by taking it out of 367 banks in fifty cities and placing it in twelve banks in twelve cities. The concentration of money was further "corrected" by taking it out of the hands of hundreds of bankers in the fifty cities and placing it in the hands of seven men at Washington appointed by the President of the United States. This kind of "decentralization" was, in fact, analogous to a reversal of the principles of addition and subtraction.

The extent of the concentration of money made by the Federal Reserve Act and the magnitude of the political money trust which it creates were thus fitly characterized by Professor Edward Sherwood Meade, of the University of Pennsylvania, in an article in the June, 1914, number of "Lippincott's."

Referring to Mr. Bryan's celebrated "cross of gold and crown of thorns" speech delivered at Chicago in 1896, in which it was declared that certain men of the

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East meet in a back room and corner the money of the world, Professor Meade says:

"While the existence of this money-cornering group then or at any other time may well be doubted, after sixteen years the same party which Mr. Bryan led in 1896 against the money power has erected in the Federal Reserve Board a political money power, dominated by the President of the United States, which is far more potent than the imaginary combinations of the past."

This statement is supported by an enumeration of a few of the board's powers. Professor Meade then goes on to say:

"The Federal Reserve Board can expand or contract the currency at will and without limit.

"They can fix the rate of interest the country over, raising or lowering it at pleasure.

"They can raise or lower the cash reserves of all the national banks.

"They can expand or contract the credit of every class of business men.

"They hold the power of life and death over every American business."

"The new law, in theory," says Professor Meade, "makes the President of the United States, acting through the Federal Reserve Board, the financial dictator of the United States. The late J. Pierpont Morgan, at the height of his power, with the confidence and respect which fifty years of successful business gave him, * * * the man who at the close of his life wielded a personal influence in the field of banking and finance to which history offers no parallel, would appear impotent and feeble when contrasted with the power of the President of the United States under the new currency law."

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JACKSON'S "POLITICAL MONSTER" RECREATED

The student of American banking history can hardly fail to note the fact that in Andrew Jackson's memorable fight against the Bank of the United States that institution was overthrown and banking was actually decentralized, but that in the fight against centralized banking made by Mr. Bryan a directly opposite result was reached, and the banking business was centralized as it never had been before. Jackson got his mandate from the people; so did McKinley in his fight for the gold standard; but about the almost equally vital Federal Reserve Act (in fact it is of much greater importance than the Bank of the United States) the people never have been consulted.

Not only did the Federal Reserve Act actually effect the direct opposite of what was the declared purpose of its proponents in centralizing banking instead of decentralizing it—for of course the Federal Reserve Board is nothing more than a central bank of which the twelve Federal Reserve Banks are branches—but it also did exactly the very contrary thing which those who framed the act evidently thought they were doing. It was one of the main objects of the bill to take away from private institutions—that is, from banks,—the right of issuing currency in the form of notes, and to restore this important privilege to the people as represented in Congress through their delegated political agents. The measure did really take the steps which will in the course of time deprive the banks of the note-issuing function, but failed absolutely to confer this privilege upon the people or their delegated representatives in Congress. What the Federal Reserve

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Act has done is to concentrate the note-issuing power in a board of seven men appointed by the President of the United States, and of this board the Secretary of the Treasury is ex-officio chairman and through his official standing must always exercise a powerful if not a dominating influence on the board. In other words, the control now exercised over the country's currency supply is in the hands of a board of seven political appointees, of whom the Secretary of the Treasury is a leading figure. Does it need argument, or even a statement, to show that the political or financial control of this board is substantially easy? Who can doubt that under a Democratic majority of board members the action of the Federal Reserve Board, so far as this action may affect the political situation, will be favorable to the Democratic party, or that when the situation is reversed and the board is controlled by Republicans they will similarly act for the benefit of their party?

In short, that the very political monster which Andrew Jackson destroyed in his onslaught against the Bank of the United States in 1837 appeared again seventy-six years later in a form a hundred fold more powerful and menacing than in his day, and created by the very party of which Jackson was an illustrious member and a patron saint!

How did this politico-financial tragedy come about? Presumably through ignorance rather than intention. Legislating on the currency under the mistaken leadership of Mr. Bryan was just as sure to produce unexpected and fatal results as would be the case were a "surgeon" to attempt to operate upon the human body without at least a smattering of anatomical knowledge.

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WALL STREET CONTROL OF BANKING MADE EASIER BY FEDERAL RESERVE ACT

But political control of the credit and currency of the country was not the only thing the Federal Reserve Act has made possible, and probably not the most dangerous. It concentrated a power that had heretofore been scattered, bringing together under the domination of the Federal Reserve Board, and largely of the Secretary of the Treasury, a vast fund in the shape of banking capital and reserves, giving to this board a tremendous influence over the country's money and credit, and thus setting up a most tempting prize that great financial interests are sure to contend for and ultimately to influence and probably to control altogether. Even now one of the most powerful Wall Street groups has a strong official representation on the Federal Reserve Board, and while no imputation against either his patriotism or integrity is intended, the fact can not be lost sight of that this new and much-vaunted declaration of financial independence of Wall Street has in truth made possible an actual domination of the country's currency and credit of which Wall Street had never before even so much as dreamed of having.

Furthermore, the charge is an old one that under every Administration, Democratic or Republican, one or the other of the great banking interests has always been in favor at the Treasury. This charge has not implied a corrupt use of the public funds, but has implied the bestowal of favors. Prior to the passage of the Federal Reserve Act this favoritism could only be employed with reference to the surplus money in the Treasury—never a very large amount—but now it affects the entire national banking system with its vast fabric of credits running into billions.

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All this rich prize has been consolidated, concentrated and brought together in a way to tempt the financial magnates to seize and control for their own ends the credit—the life-blood—of the people.

This mistake was, as said before, due to lack of understanding and not through design, for no one would accuse Mr. Bryan and his followers of the deliberate purpose to consolidate and concentrate the control of the currency and credit of the country so that this control could be readily secured by a politico-Wall Street combination, although this is really what was done. But it was done in the honestly ignorant belief that the Government is the one dependable dispenser of credit and currency.

PEOPLE SHOULD CONTROL CREDIT AND CURRENCY, EXERCISING CONTROL THROUGH THE BANKS, NOT THROUGH THE GOVERNMENT

And yet, mistaken as has been the application of Mr. Bryan's theory, its main basis is correct.

He believes that the people should control their currency and credit. And in this he is absolutely right.

But he would have that control exercised through Government. And in this he is hopelessly wrong.

If you allow the management of the currency and credit to remain with the banks, its volume will really be determined by the people—for absolutely and beyond question the people control the bank credits.

This is a point of the greatest practical importance in this whole controversy.

The amount of credit which a bank grants does not depend upon the mere will or whim of those who manage the bank. It depends upon the people who

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want to use the credit—the business men, merchants, farmers, manufacturers, etc. If a man is fairly entitled to credit—and of this the bank is through its nature and equipment the proper judge—he will get that credit; if not at one bank, at another, and the 30,000 existing banks, with the possibility under our free banking system of the organization of other competing banks, afford an unqualified assurance that he will get it.

And the bank has every incentive to grant the credit, for in this way it earns the profit upon which its life depends. Besides, the bank is an integral part of the business life of the community, and has a direct, tangible interest in the prosperity of the people.

Surely the local bank is the better judge—yes, the more sympathetic judge—than a political board at Washington, hundreds, or even thousands, of miles away, none of whose members know the applicant for credit or even care anything about him. While the banker knows the man who wants credit, wants to help him, through self-interest, and perhaps is bound to help him and afraid to refuse his application because he is a depositor in the bank and therefore entitled to the use of its credit.

Nor can Congress possibly measure or regulate the demand for currency and credit, because the members of the Senate and House can not know what are the just demands for such accommodation in any particular locality nor the merits of those who apply for the credit. To be entitled to credit some other qualification is required than always to have regularly voted a straight party ticket.

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FUNDAMENTAL PRINCIPLES UPON WHICH SOUND BANKING LEGISLATION MUST REST

Whenever men carefully study the problem of banking and currency they will inevitably reach these conclusions:

(1) That Government should confine its functions to defining the standard of value and to prescribing the weight, fineness and denomination of the coins.

(2) To punish counterfeiting, either of the coins or paper currency, and to engrave the currency so as to make the notes of uniform appearance and to render counterfeiting difficult.

(3) To require that the standard metal (or a certificate of equal value) be the only bank reserves, and that all credits—deposits and currency—be made subject to the test of redemption therein.

Having done this, the less the Government attempts to interfere with the free exercise of banking functions, except to provide for such regulation as will tend to assure safe management, the better will the banking needs of the people be served.

Provision for safety of the currency should be made, and coin redemption is the best test. The man who gets credit at a bank should be left to determine for himself in what form he wants the credit—in a book credit against which he can check, or in the shape of notes. He knows which he wants and can best use. Congress does not know and can not know. Neither can the Federal Reserve Board. These political entities can no more regulate the supply of currency than they can regulate the supply of moisture necessary to grow the crops.

Political control of credit and currency is wholly unnecessary, futile and grossly mischievous.

Let the people control their bank-note credits in

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their own way, through their banks, just as they now control their bank-book credits. If allowed this freedom they will get exactly the kind of credit they can best use and of which they, and not Congress or the Federal Reserve Board, are the only competent judges.

The fundamental principles to be kept in mind in the attempt that must soon be made to reshape our banking and currency system are these:

(1) Gold as the reserves for all banks.

(2) Credit notes issued by banks against the same reserves as held against deposits, such notes to be secured by a first lien on assets, a safety fund and to be redeemed in gold through the clearing houses—precisely as other credit instruments are now redeemed.

(3) The mechanism of a united banking system to follow the lines of our clearing-house development, and to provide for efficient bank inspection of all banks under the direction of clearing-house organizations.

FEDERAL RESERVE ACT VIOLATES THESE PRINCIPLES

The first principle is not questioned by those who have given attentive consideration to money and banking. It is violated by the Federal Reserve Act, indirectly, since the Federal Reserve Notes, which are Government obligations, will unquestionably be used as reserves by State banks.

Likewise the second principle is contravened by the Federal Reserve Act, for the Federal Reserve Notes are not bank credit instruments. Their being Government paper fixes them as a permanent element in the circulation. A bank obtains these notes

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through rediscounting. Commercial paper in the vicinity of the twelve Federal Reserve cities is shipped to the Federal Reserve Banks in these cities and currency obtained therefor. How does the mere change in location improve the quality of this paper? If it is good enough when away from home to secure the issue of currency, why is it not good enough at home? Every dollar paid to obtain currency through rediscounting paper is a wholly unnecessary tax upon business—a tax borne by the people, not the banks.

And the third principle is violated by the Federal Reserve Act, which is foreign in its essential details, bearing no resemblance whatever to anything derived from our own experience. Instead of adopting and extending the splendid development of the clearing-house organization, it largely discards this experience and even interferes with its further extension, multiplying the admitted deficiencies of Governmental banking inspection.

MR. FOWLER'S WORK IN BEHALF OF BANKING REFORM

In conclusion a tribute ought to be paid to the ability, courage, patriotism and unflinching integrity of Charles N. Fowler, the author of "An American Banking System." For nearly twenty-five years he has battled with unceasing persistence for sound principles of banking and currency. He was one of the very first men to raise his voice in Congress in behalf of the gold standard. He began the fight for banking reform, kept it up during his sixteen years' membership in the House, and for eight years as Chairman of the Banking and Currency Committee was the leader in that fight. By one of the accidents

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of politics, his work was destined not to reach its rightful fruition for a time. The interest he had aroused and for so long kept alive with respect to banking and currency legislation was misappropriated and misdirected by others, and the Federal Reserve Act was the result.

In "An American Banking System" Mr. Fowler presents a carefully matured and comprehensive measure embodying principles whose soundness has been established beyond question and whose fundamental features have been tested and found correct in the banking experiences of many of our own States. The system he proposes is sound in principle, democratic in character, and in keeping with the traditions, history and institutions of the United States.

POPULAR DISCUSSION—THEN LET THE PEOPLE DECIDE

Preliminary to a just and satisfactory decision upon this great question there must be had a full, free and fair discussion of it. The purpose of this book is to inaugurate such discussion in order that the people themselves—the final arbiters in a free republic—may tell us whether they are satisfied with the Federal Reserve Act or whether they want "An American Banking System."

ELMER H. YOUNGMAN

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THAT the solution and settlement of our financial and banking problem is the most important economic question that has ever confronted the civilized world must be admitted by all who will take the trouble to investigate it and institute a comparison between our conditions and those of any other country at the time when it adopted its financial and banking system.

COMPARATIVE IMPORTANCE OF OUR FINANCIAL AND BANKING PROBLEM

In 1803, when the Bank of France was established, the financial resources of France were without official record, but comparatively nominal.

In 1844, when the Bank Act under which the Bank of England is conducted was enacted, the banking resources of that country were probably in the neighborhood of \$500,000,000. The total note issue of England, Scotland and Ireland was less than \$200,000,000; the public and private deposits in the Bank of England were less than \$75,000,000.

In 1873, when the Imperial Bank of Germany took its present form, industrial Germany was still slumbering, and her bank resources probably did not exceed \$1,000,000,000. - The capital of the incorporated banks

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was about \$425,000,000, the notes were about \$325,000,000, and the reserves held about \$30,000,000.

OUR BANK RESOURCES

Our annual products are worth \$40,000,000,000, estimated to be one-third of all the products of the world and equal to those of England, Germany and France combined.

Our domestic exchanges are estimated at \$500,000,000,000.

In 1890 our bank resources amounted to only \$6,343,000,000. Today they aggregate \$26,971,000,000, estimated at approximately forty-five per cent of all the bank resources of the entire world. Therefore the reserves of gold to be held by the United States are not to be compared with those of England, Germany or France, but with those of all the world.

In solving this great problem the relentless recognition of sound economic principles and the strictest observance of the lessons of American history are essential to a wise and defensible conclusion.

GEOGRAPHICAL CONSIDERATIONS

Great Britain has only 120,000 square miles of territory. France has 204,000 and Germany 208,000 square miles. All Europe, outside of Russia, is only about one-half the size of the United States. It has 1,600,000 square miles, while we have 3,026,000 square miles. Including Russia, it has only 3,600,000 square miles.

Extended as our territory is, our products are far more varied and more universally important to the human race than those of any other nation. They exceed in value \$40,000,000,000 a year.

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LOCAL INTERESTS

New England is essentially a manufacturing center of dry goods, wearing apparel and metal wares. Pennsylvania is known the world over for its coal, iron and oil industries. New Orleans is the market for cotton, sugar and rice. Kansas City is the emporium for live stock and grain. Chicago, the greatest food-market on earth, is fast coming to be one of the greatest manufacturing points in almost every line of industry. St. Paul and Minneapolis supply us with wheat and flour. The cities of the Rocky Mountains are growing in importance year by year, and each is entitled to distinction for some particular industry. The development of the Pacific Coast from San Diego to Seattle is challenging universal attention.

LOCAL INDEPENDENCE IMPORTANT

It is highly important, indeed, absolutely essential, for the best interests of the people, industrially, commercially, socially and politically, that each geographical zone of common business interests should have independent self-government in matters of banking, precisely as the several States have control of their local affairs.

At the same time, these commercial zones should be so harmonized and united as to give to each the financial strength and power of all combined, precisely as each State is as strong and powerful politically as the Federal government itself.

DIRECTORS OF THE FEDERAL RESERVE BANKS

I have taken, as I know the bankers and business men of the whole country have, profound pleasure and felt

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the deepest satisfaction in the selections made for the directorates of the twelve Reserve Banks. I believe that it would be most difficult, indeed impossible, to match these men with an equal number equally equipped by experience, a firm determination and truly patriotic spirit to bring to their country's service the best there is in them; for many of these men, indeed, nearly all of them, at great cost and sacrifice to themselves, are devoting their energies to an impossible and therefore to a hopeless task. These men are in their prominence and in their service an honor to the American people and are entitled to the gratitude of the people.

MONETARY COMMISSION BILL

Shortly after the publication of the monetary commission or Aldrich Bill I chanced to meet one of the commission who seemed to be greatly surprised when I criticized the measure, and said to me: "What are you kicking about? It's nothing but your own bill." I was undoubtedly more surprised at his remark than he was at my criticism, and I said, "If I should be hurrying down this street some dark night and a thug should blackjack me, and, in the pursuit of his occupation in robbing me, should remove all personal identification, naturally my body would go to the morgue and from there to some medical school for anatomical study. If by chance some student should take a fancy to my skeleton and completely strip it of all the muscular tissue, and the arteries and veins and the nerve-structure, and, having thoroughly sandpapered my bones, hang my skeleton on the wall, and you should happen to learn of these facts, and see my skeleton hanging there on the wall, and should say, 'That is Fowler hanging over there,' you would be just about as near right as you are in saying that the Aldrich Bill 'is nothing but my bill.'" The sky-line, yes, but

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even that with violent variations. It lacks the complete structure. It lacks the economic organic life. It lacks the very soul of an American Banking System.

FEDERAL RESERVE BANK ACT LIKE THE FOWLER BILL

Professor Joseph French Johnson, in a discussion before the Economic Club of New York City, happened to criticize the Federal Reserve Bank Act very severely.

Thereupon Honorable Carter Glass, the author of this measure, charged Professor Johnson with vacillation and inconsistency, indulging in this language:

"I was little interested in the truism uttered by the first gentleman who spoke [Professor Johnson] when he stated that banking and currency, like other economic questions, is a matter of evolution. Of course it is; and so is individual opinion a matter of evolution. For instance, if I am not much mistaken in my recollection of events, a little more than five years ago—to be exact, March, 1908—the distinguished professor who addressed you first tonight, appeared before the Banking and Currency Committee of the House in earnest advocacy of Fowler's scheme of asset currency, which was not vastly different from the regional reserve bank proposition now under consideration. Moreover, the gentleman did not then manifest any interest in a central bank such as he has so vehemently exploited here tonight."

Now, the fact is that the Fowler Bill provided for a central gold reserve of \$1,250,000,000. Again, there is not a syllable in all of Professor Johnson's drastic criticism of the Federal Reserve Act that is inconsistent in principle with what he said at that hearing in Washington when the Fowler Bill was before the committee.

From the standpoint of Mr. Glass he pays my proposed measure the high and flattering compliment of imitation. But I regret that I cannot return the compliment nor accept his; for while he and his confrères did appropriate the name of my bill of March 29, 1910,

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which I called "The Federal Reserve Bank," they wandered very far afield in all that followed the name.

For apart from appropriating the name of my measure, there is a mere pretense of a central reserve which he did not create, unless twelve banks are identical with one; unless twelve individual persons with a sort of Siamese connection are in fact one natural and perfect human being; there has been no creation of a truly elastic currency unless expansion alone means elasticity; nor has there been such a division of the country into what I called Commercial Zones with economic credit boundaries, of which there are about fifty, but by an arbitrary, sectional, partizan and malevolent division of the country into twelve Districts, in each of which he has set up an individual independent Federal Reserve Bank, that must develop in the end inharmony and weakness.

From the standpoint of principle and bank practises it is hardly conceivable how Mr. Glass and his co-workers could have set up a device that is more completely and radically different from the Fowler Bill than the Federal Reserve Act is.

I have referred to these two incidents to illustrate the fact that all bank bills look alike to some people and to note in this connection that this is particularly true of the bankers of the country to an alarming degree, providing that the opportunities for making money are about the same in all the bills.

And that this should be so is quite natural and perfectly proper; for a banker is a merchant in credit, buying credits as low as he can and selling them as high as he can. He buys deposits with accommodation and service given to his depositors, and generally by also allowing interest on the deposits. On the other hand, he sells credit every time he makes a loan and his price for the credit is the interest he charges. The banker is precisely the same kind of a merchant that the dealer in dry goods and products is. Therefore he strives for two

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things. First: To get his own business established on the most perfect basis. Second: To secure, if possible, as favorable conditions for himself as any other banker enjoys. The thirty thousand bankers of the United States are like the captains of so many ships sailing their vessels over the seven seas. It is the duty of the captain to follow the map before him faithfully, upon which is charted the bed of the ocean, its shallows, sand-bars, reefs, rocks and ever-varying deeps, as well as the storm-centers and their ever-recurring seasons. But the captains of the ships did not survey the shores, sound, and chart the bed of the seas over which they sail. This was done by men educated for and skilled in that particular task.

So the construction of a banking system is not the work of a banker, but of the economist and statesman.

Fortunately some bankers are economists and statesmen. The bankers should sail their banks over the oceans of credit, which should be surveyed, sounded and charted by the banking economists who, in strict accordance with sound principles and the banking experience of the world, should determine what money is; what a reserve is; how a reserve should be held; what currency is; how currency should be created; what liquid capital is; what fixed capital is; where the ever-lurking and deadly danger is in accommodation paper and acceptances.

For the bankers of the country to disregard the essential principles of banking economics in running their banks would be as foolhardy and as certain to lead to disaster as for the captains of our ships to disregard the chart of the bed of the ocean over which they sail their ships.

KNOWLEDGE ESSENTIAL TO INTELLIGENT COMPARISON

From what I have said it must be apparent to you that it would be useless to attempt a criticism of the

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Federal Reserve Act before I had first clearly established in your minds certain great fundamental economic principles as well as verified banking practises with which any banking system must conform or ultimately fail.

Certainly, if we do not know what the truth is about any question, we cannot tell, when anything is said about it, whether it is true or false. Expert intelligence upon this great question, a thorough knowledge of it, is essential to a sound opinion upon any phase of it. But fortunately the whole subject rests entirely upon a very few broad fundamental principles which are simple indeed if we will only accept them as settled, as we accept the law of gravitation, which is scarcely better settled than these very same broad fundamental principles of banking economics.

The fact is that all truth is simple when we reach it and comprehend it; but it is rendered obscure and hidden from our understanding by our ignorance, our prejudices, our traditions, our self-interest and greed; therefore we must divest ourselves of these distracting and diverting influences so far as possible in order that we may see clearly and so have the courage to act bravely.

NO PERSONAL FADS OR FANCIES

I have no personal fads or fancies about this great question; no scheme; no device; no structure of my own that has been conjured up out of preconceived notions born of idealism. I have nothing to offer the American people except the recognition and obedience to economic law that is as inexorable as the law of gravitation, and the adoption of those banking practises that have been verified over and over again and found essential to safety or have been evolved out of our own experiences and have been approved by long usage.

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Study, observation and reflection have led me to this conclusion, that the whole history of Anglo-Saxon civilization expressed in statutory law, which is worth preserving, indeed which is not a drawback, a hindrance, an actual block to the advancement of the race, is the rich product of human experience that finds expression in the practises and established habits of the people.

THE GOLD STANDARD

Soon after the Civil War the question of the standard of value became acute and would not down until it was settled right. The dross of fiatism was burned out of that question in the fiery furnace of debate in 1896, because it was demonstrated that all experience had shown that there could be but one standard of value. Then as now appeals were made to the cupidity and political bias and prejudices of the people, but the sunlight of truth dissipated the fogs that bewildered them and the American people made gold their standard of value.

BUSINESS MEN AND BANKERS SHOULD BE FRANK AND COURAGEOUS IN DISCUSSING ALL PUBLIC QUESTIONS.

Business men and bankers have both been urged to boost the Federal Reserve Bank Act. Now this is not an international question. We are not driven to the single alternative of supporting it, right or wrong, as we do and must support our country. This is a purely domestic question. Should anyone boost it if he believes it to be inimical to the best interests of his country? Should we not be frank with each other? Should we not, above all things, be honest with each other? Should we not be patriotic and brave enough to say just what

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we think about a matter that affects the welfare of the whole country so vitally, and unless exposed and repealed may continue for fifty, one hundred and even a thousand years? Let us all be men, self-respecting men, brave men, patriotic men, before we are cowardly bankers, cowardly citizens, ignorantly approving and blindly supporting something we do not understand, or something about which we have doubts, even something we know to be radically wrong and that will retard, handicap and irreparably curse this country eternally if allowed to remain upon the statute books.

IS THE ACT DEFENSIBLE?

If the Federal Reserve Act is sound economically, if it is adapted to the needs and conditions of American banking, if it is a wise measure and just what we want, it will be a very easy matter to defend it, and demonstrate this fact. Discussion will not destroy nor weaken it; but will prove, strengthen, sustain and permanently establish it, if it is at all defensible. But I assert that it is structurally and fundamentally wrong, and if allowed to remain athwart the path of true bank reform that it will prove the most gigantic economic blunder ever committed in the life of this nation.

REFORMS DEMANDED

I think all will agree with me that prior to the passage of this Federal Reserve Bank Act the whole people,—I mean business men and bankers,—had arrived at two distinct and very concrete conclusions. First: That there should be a centralization of reserves,—gold reserves I mean; Second: That there should be greater adaptability of our bank credit to the ever-varying needs of our

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business. Agitation and experience had led us that far; but as to the method of securing these two important ends there had been no intelligent thinking whatever in the country, simply because there had been no intense interest as to the method. There had been no discussion of the subject by which errors would have been eliminated precisely as they were eliminated through the fiery furnace of debate to which the gold standard was subjected in 1896.

NOT DISCUSSED IN PRESIDENTIAL CAMPAIGN

Nothing whatever was said about this great, all-important question during the last Presidential campaign. It may possibly be that fate wisely foreordained that discussion should follow that piece of legislation, itself furnishing the text for the discussion. At all events, everyone will admit that there should be a fair and full discussion of the subject to determine the exact measure of wisdom expressed by that Act. And all should welcome debate as the right, wise and essential thing even now, rather than that we should pay the extreme penalty of legislation so unwise and so injurious in its consequences to the welfare of the people as I am confident this can be shown to be.

BASIS FOR WISE LEGISLATION

Financial and banking legislation should be founded upon sound economic principles and should follow and express the successful and approved practises of American banking, which have gone through three clearly defined evolutionary periods, each of which has made its distinct and important contribution to the sum of our knowledge on this question.

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FIRST BANKING PERIOD

The first banking period extended down to the time of the Civil War and its contribution was a complete, a perfect demonstration and absolute vindication of Hamilton's succinct but replete definition of what banking should be.

HAMILTON'S BASIC PRINCIPLE

"Every loan which a bank makes is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes or in gold and silver at his option."

CIVIL WAR CONTRIBUTION

The second period was the Civil War period, and its contribution, though hampered and handicapped by a strait-jacketed bond security, was a bank currency of uniform appearance and of the same value throughout the United States.

CLEARING-HOUSE PERIOD

The third period in the development of banking in the United States was that following the War and its great and incomparable contribution was the American Clearing House in its most highly developed form, as seen at Chicago, New York, Philadelphia and some twenty other cities.

Did the authors of the Federal Reserve Act recognize any one of these demonstrated facts, these illustrated principles? Is it not a fact that the authors of that measure not only utterly disregarded them, but con-

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structed their bill in direct violation of each and every one of them?

Before pointing out the essential importance of each of these contributions, (a) *the inter-convertibility of bank-book credits, bank-note credits and gold*, (b) *the economic value and convenience of a uniform and universal "Bank Credit Currency,"* (c) *the incomparable advantages of our perfected Clearing House system*, pardon me if I first call attention to a great fundamental truth for the purpose of establishing a basis for clear and unerring thought about all that is to follow.

WHAT IS MONEY?

Unless we keep steadily and resolutely in mind what a dollar is, and what money is, we shall wander as aimlessly and recklessly about in the seeming intricacies of this subject as a fool walking about in a powder-mill with a lighted torch in his hand.

A dollar consists of twenty-five and eight-tenths grains of gold nine-tenths fine, and our money consists of the gold dollar and multiples of it. The gold dollar, because of its inconvenient size, is no longer coined; therefore all the money we now have in the United States is made up of the two dollar and a half gold piece, the five-dollar gold piece, the ten-dollar gold piece and the twenty-dollar gold piece. The fifty-dollar gold piece is also no longer coined.

GOVERNMENT STAMP ADDS NO VALUE

The stamp of the government upon the gold coins does not add a millionth part of a cent to any one of them. It simply certifies to the fact of fineness and the fact of weight. Any one of these gold coins hammered into the form of a cube or a spike is worth just as much at a

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United States Assay Office as when it first fell shining into the hands of the coiner. And any one of them, though it still bears the government stamp, will not be accepted by the government itself if it has lost only a small fraction of its weight by abrasion or wearing in use.

UNITED STATES NOTES AND BANK NOTES ARE NOT MONEY

The so-called United States ten-dollar note bears these words: "The United States will pay the bearer ten dollars," which is proof complete and conclusive that the ten-dollar note is not itself ten dollars, but only a promise to pay the bearer ten times twenty-five and eight-tenths grains of gold nine-tenths fine. It is a promise to pay. It is a debt. So also a national bank note is a promise to pay money. It is a debt. These two kinds of notes are not money because they are not themselves gold. They are only demands for gold. They are neither of them any more money than a promissory note, check or any other I O U is money. Nor can you change this fundamental economic truth by statute, although you can by statute make a piece of paper tell an economic lie every time it passes hands. Likewise silver dollars are demands for gold, and are as good as gold only because and only so long as redeemed in gold. Gold certificates and silver certificates are nothing but warehouse receipts entitling the holders to the gold or silver they represent which lies in the Treasury vault at Washington. They are to the gold or silver they represent precisely what a trunk-check is to the trunk it calls for which is at the railway station.

It follows, therefore, necessarily that no part of what is popularly called money, except the gold pieces, is money, but are, correctly speaking, nothing but currency, that which passes from hand to hand for the convenience of the people. United States notes, bank notes, gold

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and silver certificates and silver are not money, because they have to be redeemed in money to make them as good as money. They are not their own redeemers, as gold is.

THE SOURCE OF FINANCIAL ILLS

Nearly all, probably ninety-nine per cent of all, of the financial ills from which the world has suffered throughout all its history have been directly attributable to the insane idea that a debt, a demand for money, however certain it was of being redeemed in money, was itself money; and that other debts, other demands for money, were based upon it just as if it were money. It was a false economic assumption. It was an economic lie. It was an economic crime, and the world has paid the severest penalty over and over again for its folly in being led to believe this economic lie,—led to commit this economic crime of treating or using a debt, a mere I O U, as money.

AMOUNT OF MONEY IN UNITED STATES

The amount of *gold* in the United States, and therefore the amount of *money* in the United States, according to the statement of the government July 1, 1915, was \$1,993,549,015 and the amount of currency in all its various kinds and forms in the United States outside of gold is just about equal to this amount,—as the total amount of all forms of money and currency was \$3,997,368,468.

BEST KIND OF CURRENCY

Now, the question is, what is the best form or kind of currency outside of gold, which is both money and

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currency. Assuming that all the other various kinds and forms of currency must be kept as good as gold by currently redeeming them in gold, then that kind of currency is most economical which costs the least and at the same time adapts itself to the requirements of trade with the greatest facility at the least expense and least trouble. Because it is both the cheapest, most convenient, and serves the people best, therefore it should be furnished to the people as their right.

This duty on the part of the government to see that the people be furnished the best and most economical kind of currency brings us back to the consideration of those contributions of American experience in banking during the last one hundred and twenty-five years.

A PRACTICAL ILLUSTRATION

Let me ask you to imagine yourselves in the Citizens National Bank of New Castle, Pennsylvania, while we apply that rule of banking laid down by Alexander Hamilton to which I have already alluded, and which read:

"Every loan which a bank makes is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes or in gold or silver at his option."

This bank has a paid-up capital of	\$200,000
Its circulation is	\$200,000

It happens that this bank is located in a section of the country where the rate of interest is six per cent; therefore the bank earns six per cent upon its circulation, or

	\$12,000
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Taking its bonds at par and assuming that the circulation is kept out all the time, the net profit on the circulation is .014 per cent, on \$200,000, or

	\$2,800
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The total income therefore from the circulation is \$14,800

Mr. David Jameson, president of this bank, recently in a keen, analytical article pointed out that the loss this bank would sustain as a result of the passage of the Federal Reserve Act would amount to

(a) On the reserves required without interest	\$2,850
(b) On the capital he was forced to advance upon which he did not expect to receive any dividend	\$1,800

Making a total loss of	\$4,650
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If we deduct the loss from the gross income on the circulation we have a net income of only \$10,150

Let us assume that this bank has retired its circulation and that it has realized par for its bonds, or \$200,000

Let us assume that it has loaned out this \$200,000 at six per cent interest. The return to the bank would be \$12,000

The Citizens National Bank of New Castle would then be in precisely the same position that any State bank or trust company is now in, provided that the State bank or trust company is carrying the same amount of bank reserves,—say fifteen per cent.

We can now think of all banks both State and National at the same time, in the same way and upon identically the same basis.

Let us suppose that this bank could do just what the Canadian banks are now doing and have been doing ever since 1822, or for nearly one hundred years, exchange \$200,000 of its bank notes or an amount equal to its capital, \$200,000, for the promissory notes of its customers.

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When the bank has done this it has simply increased its deposits \$200,000; for the transaction does not differ economically in any way or in the slightest degree from the transaction of giving these same customers of the bank credit upon its books for \$200,000 subject to check for their promissory notes amounting to \$200,000. Therefore the bank should carry the same reserve against its notes outstanding that it would have carried against a deposit of \$200,000, or fifteen per cent.

The reserve held against these notes would be	\$30,000
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The cost to the bank of carrying \$30,000 in its reserves at six per cent would be	\$1,800
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Moreover, since the banks of the country are now allowing their depositors interest on their deposits of at least two per cent on the average, this bank should pay to the people, to the public, to the United States government, a tax of two per cent on the \$200,000 of notes outstanding, because the people, the public, the note-holders become depositors of the bank to the amount of the notes outstanding.

This would make an additional charge against the profits of the bank of	\$4,000
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Or a total against the income of the bank of	\$5,800
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But it will be recalled that the proceeds of the bonds have been loaned out at six per cent and brought a return of	\$12,000
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It will be observed also that the \$200,000 of promissory notes taken by the bank in exchange for its own notes are drawing six per cent interest and therefore would return to the bank	\$12,000
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Making the total income of the bank due to the change of method in issuing its currency	\$24,000
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Now, if we deduct the outgo resulting from the change of method, or \$5,800, we would have a net income of \$18,200

If from that amount we deduct the net income under the Federal Reserve Bank Act, which was \$10,150

We shall have a net gain in favor of the proposed plan of issuing our currency of \$8,050

But it will be observed and noted that a tax of two per cent upon the \$200,000 of bank notes has been paid to the people, to the public, to the United States government, or a total amount of \$4,000

It is evident, therefore, that the total saving to the people and banks combined, the total economic gain to the country, would amount to \$12,050

This is a saving of a trifle more than six per cent upon the capital of the banks, of which the people, the public, the United States government, get two per cent and the bank and its depositors or customers get four per cent, or, to be more exact, .06025 per cent.

It should not be forgotten, but should be here observed and noted, that the State banks and trust companies will fare much better than these figures indicate because an allowance and deduction was made for the profit on the present National bank-note circulation amounting to .014 per cent.

To put this whole matter of profit and loss into a nutshell, if a State bank or trust company with a capital of \$200,000 and the same amount of deposits as the Citizens National Bank of New Castle should enter the Federal Reserve Bank system its loss would be \$4,650

But if it should have the same right of

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note issue now enjoyed by the Canadian banks its gain would be	\$6,200
Or a total difference to the bank of	\$10,850

But the bank has paid the people, the public, in the form of a tax to the United States Treasury of two per cent on its note issue of \$200,000, making a total economic gain to the country of	\$14,850
Or .07425 per cent upon its note issue of	\$200,000

In other words, the net gain to the State banks and trust companies would be .014 per cent on their circulation, and the combined saving to the people, to the public, to the United States Treasury, in the form of a tax paid to the United States government on the notes would be two per cent, while .05425 per cent would go to the banks and their depositors and customers.

Let it be remembered that in the end the depositors and customers, so far as they are borrowers, pay all it costs to carry on the banking business of this country, for the bankers always get theirs after the expenses have been paid by the borrowers; therefore, the borrowers are interested in reducing the cost to the lowest possible point.

Whenever the people pass legislation that increases the expenses of the banks they are only adding to their own burdens, cutting their own throats, for in the end the people always pay the freight.

BANK CREDIT CURRENCY

When a bank issues its I O U's against its credit directly and simply, in the form of bank notes without depositing with the government any United States bonds or other securities to guarantee their payment,

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the bank is creating "*Bank Credit Currency*." It is making its bank credit current.

HOW WOULD OUR BANK CREDIT CURRENCY BE CREATED?

If our banks were permitted to issue "*Bank Credit Currency*" to the amount of their capital, the United States government would furnish every bank, precisely as it does today, an amount of its notes equal to its paid-up capital without requiring the bank to deposit any kind of collateral whatever. In the case of the present National banks it would not cost them anything for plates because the government would simply erase from the plates they now have these words: "Secured by United States government bonds and other securities."

SAFETY OF BANK CREDIT CURRENCY

The present National bank notes are not only secured by the deposit of the United States government bonds and other securities, but they are in addition to this made a first lien upon all the assets of the bank issuing them. And this is wise, proper and just as it should be, for the bank note performs a quasi public function and therefore it must pass from hand to hand without ever being questioned by anyone.

For the same reason, then, that the National bank notes are made a first lien upon all the assets of the bank issuing them, that the Scotch bank notes are made a first lien upon all the assets of the bank issuing them; that the Canadian bank notes are made a first lien upon all the assets of the bank issuing them, so the "*Bank Credit Currency*" issued by our banks should be made a first lien upon all the assets of the respective banks issuing it.

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GUARANTEE FUND

While our experience shows that an issue of "*Bank Credit Currency*" equal to the amount of the capital of our National banks would have been absolutely safe during the last fifty years if it had been made a first lien upon the assets of the banks issuing it, to place public confidence beyond all possible question, a guarantee fund of five per cent of the amount of notes outstanding should be created precisely as has been done in Canada.

Since the experience of the last fifty years has demonstrated that a tax of one-fifth of one per cent upon all our National bank notes would have paid all the notes of the failed banks, without any references to the bonds securing them, it is evident that a guarantee fund of five per cent would insure all the bank notes for a period of twenty-five years in advance.

This guarantee fund would be created out of the tax of two per cent paid by the banks to the government upon their note issues.

TWO FACTS DEMONSTRATED

First. It has been demonstrated that such a currency is safe beyond all peradventure if one hundred years of experience in Canada and fifty years of experience with the National Banking System can prove anything.

Second. It has also been demonstrated that if the banks were authorized to issue an amount of "*Bank Credit Currency*" equal to their capital instead of doing business under the Federal Reserve Bank Act, it would result in an economic gain to the whole country of .07425 per cent upon the amount of the currency required by the people.

It is to be observed and noted that the amount of "*Bank Credit Currency*" used by the people of France prior

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to the breaking out of the European War ranged from \$30 to \$35 per capita. Again, it is more important to be observed and noted that the amount of "*Bank Credit Currency*" used by the people of Canada has ranged for several years from \$15 to \$20 per capita. This observation is more important because the business conditions prevailing in Canada are more nearly identical with the business conditions in the United States than those of any other country.

Therefore I am convinced after a thorough investigation of the subject, that if our monetary system should be simplified and properly readjusted, the amount of "*Bank Credit Currency*" used by the people of the United States would average about \$15 per capita, or a total of \$1,500,000,000

A saving of .07425 per cent upon this amount would make a total economic saving or gain to the whole country of \$111,375,000

An all-important point to be observed and noted is that economically speaking the commercial deposits of the country would be increased by \$1,500,000,000, and that these deposits would be available to the wage-earners and the agricultural classes principally, because they are, comparatively speaking, the chief users of currency in the transaction of their business.

DISPOSITION OF UNITED STATES GOVERNMENT TWO-PER-CENT BONDS

It has been assumed that the National banks would be able to dispose of their two-per-cent bonds at par. This result can be achieved by appropriating from the amount received through the two-per-cent tax on the "*Bank Credit Currency*" sufficient to make the rate of

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interest on the two-per-cent bonds three per cent. This having been done, the bonds now securing National bank notes could very readily be sold to our great life-insurance companies, the Savings-banks and to private estates.

CREATION AND COURSE OF BANK CREDIT CURRENCY

Let us pursue our observations a step further and note what occurs from day to day as the bank of New Castle puts its "*Bank Credit Currency*" into circulation. You must not allow yourselves to forget that that is precisely what it is, "*Bank Credit Currency*,"—bank credit made current.

Let us assume that the Citizens National Bank of New Castle has furnished \$20,000 of its "*Bank Credit Currency*" on a Saturday morning to meet the pay-rolls of its customers. If any of its own depositors should get possession of some of these notes they would bring them directly to the bank in the regular course of business and deposit them with their own checks, drafts and other currency, thus converting them into a deposit subject to check. If the balance of the \$20,000 of "*Bank Credit Currency*" put out by the bank should get into the possession of the other banks of the city they would send them to the Clearing House with all the checks and drafts against the Citizens National Bank, and these bank notes would be paid there by it, by paying the balance against it.

OVER-EXPANSION OF BANK CREDIT CAN NEVER BE DUE TO BANK CREDIT CURRENCY

Will some one who has not studied this question and thought it out carefully to the end suggest that the right to issue an amount of "*Bank Credit Currency*" equal to the capital of a bank will lead to over-expansion?

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The form that bank credit takes *after loans have once been granted* has nothing whatever to do with the over-expansion of bank credit. If over-expansion takes place at all it must be when the loans are granted by the bank.

The current redemption of all bank debts when due is the only proof positive of the bank's ability to liquidate. The soundness of the banking situation, at any given time, therefore, is measured by the ability of the banks to liquidate.

Over-expansion results very largely, if not entirely, from one of four causes.

First. The granting of larger loans than are necessary to meet actually the legitimate demands of commerce, the excess being diverted into outside ventures.

Second. The granting of loans for too long a time or the repeated and endless renewal of loans.

Third. The over-trading or speculation in production or in commodities.

Fourth. The diversion of the commercial fund or capital of the country into railroad building, internal improvements or speculative real-estate investments.

That form of bank credit which shortens the life of bank loans by immediately returning for redemption will always tend to check and prevent over-expansion. "*Bank Credit Currency*," therefore, which goes to the Clearing House daily for redemption will check and prevent over-expansion of bank credit and will not lead to it. In the very nature of things "*Bank Credit Currency*" is a natural and potential check to over-expansion of bank credit. This was the very soul of the Suffolk system of New England—sixty per cent of the bank credit being in the form of "*Bank Credit Currency*," which was redeemed daily at the Suffolk Bank in gold. It is the very soul of the Bank of France, the greatest banking institution that has ever existed in the world.

Over-expansion of bank credit is due to *over-lending*, and it occurs at the time the loan is made, and it

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has occurred in England, where they have no "*Bank Credit Currency*" at all, more frequently during the last seventy years, or since the English Bank Act was passed in 1844, than in France, where nine-tenths of the bank credit of the Bank of France has been in the form of "*Bank Credit Currency*" since 1803, or for more than one hundred years.

It will be noted that the deposit liability of the Bank of France is not ten per cent of its bank-note liability.

The principle laid down by Ricardo is fundamental and has been verified over and over again; indeed, wherever tried it has demonstrated its universal application. It was this: "The issuers of paper money [currency] should regulate their issues solely by the price of bullion and never by the quantity of their paper in circulation. The quantity can never be too great or too little while it preserves the same value as the standard."

THE PRINCIPLE IS OLD

In what I have here presented there is nothing new,—absolutely nothing new. It is all old. And there has been no time during the last two hundred years that this principle has not been vindicating itself in Scotland. For more than one hundred years it has been vindicating itself through the Bank of France. For almost one hundred years the Canadian banks have been vindicating the same principle. In no less than thirteen States and in all parts of the Union this same principle was vindicated prior to the Civil War.

Nor has there been a single instance during the last two centuries when this same principle has been invoked where it has failed to demonstrate the fact that it involved the vital principle of bank credit,—the dynamic force of the world's commerce. Nor has it ever failed to produce identically the same kind of results, varying

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only in degree, and strictly according to the fidelity with which the principle has been followed and this great law has been obeyed.

Speaking of the "*Bank Credit Currency*" system of Scotland in 1856 Henry D. MacLeod, the most profound student of banking economics, said:

"It is no exaggeration whatever, but a melancholy truth, that the period of the Revolution of 1688 and the establishment of the Bank of Scotland, that country, partly owing to such a series of disasters as cannot be paralleled in the history of any other independent nation, and partly owing to its position in the very outskirts of the civilized world, and far removed from the humanizing influence of commerce, divided in fact into two nations, aliens in blood and language, was the most utterly barbarous, savage and lawless kingdom in Europe. And it is equally undeniable that the two great causes of her rapid rise in civilization and wealth have been her systems of national education and banking. Her system of banking has been of infinitely greater service to her than mines of gold and silver. Mines of precious metals would probably have demoralized her people. But her banking system has tended immensely to call forth every manly virtue. In the character of her own people, in their steadiness, their integrity, their honor, Scotland has found wealth infinitely more beneficial to her than the mines of Mexico and Peru. . . .

"On the contrary, their solid results have been her far-famed agriculture; the manufactures of Glasgow and Paisley; the unrivaled steamships of the Clyde; great public works of all sorts, canals, railroads, roads, bridges; and poor young men converted into princely merchants. . . .

"All these marvelous results, which have raised Scotland from the lowest state of barbarism up to her present proud position in the space of one hundred and fifty years, are the children of pure credit."

Such were the marvelous results that had been attained in Scotland down to 1844 when the English Bank Act was passed.

While in England periods of over-issue and panic

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succeeded each other and bank failures took place in alarming numbers, Scotland steadily progressed and bank failures were scarcely heard of. Whatever financial disturbances Scotland experienced were only the reaction from England.

While now it is easily seen that under such circumstances things could not have been otherwise, it is surprising to find that the different effects of note issuing in Scotland and England form the inexplicable puzzle they do to economists.

Even John Stuart Mill as well as others could explain the good economic effects of freedom of note issue in Scotland and favored it on logical grounds; but on the ground of experience he with others condemned free note issuing in England. It is a strange fact that Mill dismissed the whole subject, vital as was the principle involved, with the superficial and farcical remark that free note issuing is very good north of the Tweed, but very bad south of it.

Mill and the others committed their stupendous error by assuming that note issuing was actually free in England when the fact was that government interference had destroyed, completely destroyed, the usefulness of the system in England. Several legal formalities were required to start a note-issuing bank. The limitations, restrictions and regulations were of such a character that they were more than sufficient to give the notes a coin nature—a coin prestige.

These laws completely destroyed the true credit character of the notes. They did not, they could not, create money out of debts. But they set in motion an economic force that destroyed what money there was,—a force that destroyed the very foundations of credit.

Sir Robert Peel evidently could not comprehend, for certainly he did not appreciate, the fact that the English bank notes prior to 1844 were competing with the coin of the country, and that they called forth none

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of the healthy and useful banking methods which free credit instruments compel. They simply expelled from the country a quantity of gold exactly corresponding with their own aggregate.

Though this is perfectly plain to any intelligent student now, Peel does not seem to have perceived that, if the media of exchange are to be increased in a country, it is absurd to attempt their increase by the introduction of one medium which expels another medium in exact proportion to its own quantity. In a word, he did not see the totally different nature of the free note issues of Scotland and the bank-note issues that had been limited, circumscribed, hemmed about and buttressed in England until the people, and also the banks themselves, looked upon them and used them as coin and substituted them for coin.

Every paragraph, every sentence, every word, every syllable, that is used to change or convert a true bank credit instrument into paper coin, correspondingly and identically to the same degree destroys its virtue and usefulness as a credit instrument and makes it to the same degree and directly in the same proportion the deadly and destructive enemy of the very coin whose nature it is made by statute to approximate or assume.

This is the fateful feature of the Federal Reserve Bank Notes. And the result will be inevitably identical with the consequences which followed this experiment in Great Britain prior to the passage of the English Bank Act.

It was utter lack of comprehension and appreciation of this subtle but great fundamental truth that caused Sir Robert Peel and his followers to fail to realize that all the troubles suffered by English bankers were entirely due to the coin character, to the prestige, given their notes by the government which made them in the public mind fit substitutes for the coin itself. On the other hand, the Scotch bankers who escaped all trouble issued their notes entirely free and therefore of

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the same identical character as I O U's, drafts and checks,—in fact private instruments of a nature suitable to the needs of the poor and struggling workers in all their various fields of production.

Again it was this same lack of comprehension, appreciation and want of recognition of this subtle and profound truth that led Sir Robert Peel and his followers into that simple and stupendous error upon which the whole Bank Act of 1844 was founded.

And that was this, that there should be no bank notes except those based on gold and issued against gold, the assumption being that gold could not be drawn out of the Bank of England unless an equal amount of bank notes were surrendered. Within eighteen months after the passage of his Bank Act, Peel learned that a mere check was just as efficient an instrument to take gold out of the Bank of England as his notes were. The whole theory upon which the Bank Act of 1844 was based had been exploded.

It was this lack of comprehension and appreciation of the fundamental difference between a true bank credit note, as illustrated by the Scotch bank note and the bank note issued by the Bank of France, and the bank note which was circumscribed, hemmed and buttressed by statute and made something entirely different from pure bank credit, that deprived England of one of the most efficient and one of the vital forces in the production of wealth; *that started Germany on its unerring and fatal destination,—a compulsion to make her bank notes legal tender in time of peace, which is always a certain prelude of a financial cataclysm.*

BANK CREDIT CURRENCY IN THE UNITED STATES

Whether Alexander Hamilton was familiar with the miraculous achievements wrought in Scotland by its

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banking system or whether this marvelous man evolved the principle from the inner consciousness of his own matchless economic mind, certain it is that he gave formal and precise expression to the same great principle in his words already quoted, and put that principle into practise in 1791 when he gave to this country the charter for the first Bank of the United States.

So important is this great, fundamental economic principle that it will do no harm to repeat it here.

HAMILTON'S BASIC PRINCIPLE

"Every loan which a bank makes is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes or in gold or silver at his option."

BANK CREDIT CURRENCY AND THE BANK OF FRANCE

The Bank of France was authorized to issue "*Bank Credit Currency*" virtually without limit, subject only to its convertibility into coin.

The charter contains the following provision:

"To issue notes payable to bearer at sight and notes to order payable within a certain number of days after sight. These notes as issued by the bank shall be so proportioned to the reserve cash in the vaults of the bank, and with such regard for the maturing of negotiable paper held by the bank that the bank can at no time be exposed to the danger of delaying payment of the obligations when presented."

No one can read this provision, which is identically the same today as it was when Napoleon approved or more likely wrote it in 1803, without observing that it is only a paraphrase of Hamilton's principle.

Undoubtedly owing to the great success of the first

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United States Bank, and the very friendly and intimate relations existing between the United States and France in 1803, France, following the same principle, established the Bank of France, the most successful and remarkable bank that has ever existed in the world. It enabled Napoleon to carry on his wars on a metal basis. For more than one hundred years this remarkable institution has carried the government of France through its wars and its revolutions, through its changes from a kingdom to a republic and from a republic to an empire, and from an empire to a republic, and has often been the final resort of the Bank of England in times of great stress.

FIRST UNITED STATES BANK

It should be noted in passing that the capital of the first United States Bank was fixed at \$10,000,000 and that its note issue was fixed at the same amount, but that the amount of notes outstanding at any time did not exceed \$6,000,000, being for the years of 1809 and 1811, respectively, \$4,500,000 and \$5,037,125.

BANK CREDIT CURRENCY IN VIRGINIA

In his "History of Virginia Banks and Banking Prior to the Civil War" William L. Royal used this language:

"In 1804 the legislature chartered the Bank of Virginia and its branches and this was the beginning of the Virginia banking system that by 1860 had grown and developed into the most perfect banking system that the world has ever seen."

These banks all followed the principle laid down by Hamilton and were permitted to issue notes equal in amount to five times the amount of coin held by them. In 1860 the white population was 1,047,000; the capital

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of the banks was \$15,884,000; their coin on hand was \$2,943,652, and therefore they could lawfully have issued nearly \$15,000,000 of notes; but there was then outstanding only \$9,612,000, proving with what facility and certainty the "*Bank Credit Currency*" of Virginia adapted itself to the exact needs of the people.

The exchange Bank of Richmond had only one dollar of notes out for each dollar of coin, while the Farmers Bank of Blacksburg, a small country town, had out five dollars of notes for each dollar of coin. The reason for this wide discrepancy in the note issues of the two banks was the fact that the people at financial centers always use more checks. But should not the country bank have the same privilege and advantage of furnishing its customers the kind of credit they need as well as the city bank; and should not the country people have the same privilege and advantage of getting at the counter of their bank the kind of credit their habits and conditions require that the city people have?

Mr. Royal further says:

"There were no very wealthy men, but the entire population was well off. This is a result of a system that makes banking perfectly free among the people."

This description corresponds precisely with that of MacLeod about the effect of the Scotch system upon the people of Scotland.

The soundness of the Virginia banks was beyond all question. Mr. Royal referring to this subject, says:

"I have been unable to discover that any Virginia bank ever failed prior to the Civil War: or that any man ever lost a dollar by a Virginia bank note prior to that event."

It is also to be noted that in 1860 the general opinion of the soundness of the banking system had become so prevalent that the Virginia bank notes were at a very trifling discount in New York. The discount was no

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more than what was necessary to send the notes to Virginia and bring back the coin,—say one-fourth of one per cent.

In other words, the Virginia notes were as good as coin everywhere, less the cost of transportation.

On February 25, 1811, the charter of the first Bank of the United States expired. The theorists and verbal constructionists of the Constitution had their way and refused to renew the charter.

SECOND UNITED STATES BANK

In the midst of appalling disasters and great business distress the leaders of Congress were driven from their trenches of theories and compelled, in the interest of the public credit which was now tottering, to resort to an organized financial system.

On the 10th of April, 1816, the second Bank of the United States, founded upon identically the same principles as the first, was chartered, and it went into operation on January 7, 1817.

The historian Parton speaking of this bank, says:

"The notes of the United States Bank were as good as gold in every part of the country. From Maine to Georgia, from Georgia to Astoria, a man could travel and pass these notes at any point without discount. Nay, in Sweden, Paris, Rome, Cairo, Calcutta, St. Petersburg the notes of the Bank of the United States were worth a fraction more or less than their value at home according to the rate of discount."

The second Bank of the United States had a capital of \$35,000,000 and the right to issue an equal amount of "*Bank Credit Currency*." But during no year did the circulation reach \$24,000,000. It averaged about \$12,000,000 per year while the deposits averaged about \$15,000,000.

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Notwithstanding the marvelous success of this great institution, an extension of the charter was refused, simply because it could not be prostituted to political purposes.

John J. Knox, in his history of banking, says:

“The motive for bringing up in the President’s message the question of the recharter of the Bank of the United States appears to have been largely, if not altogether, a political one. Mr. Calhoun, in a speech made in January, 1834, upon Secretary Taney’s reasons for removing the deposits, asks: ‘Can the Secretary be ignorant that the avowed and open policy of the government is to reward political friends and punish political enemies? . . . Can he be ignorant that the real offense of the bank is not that it has intermeddled in politics, but because it would not intermeddle on the side of power?’ A report made in 1833 by a committee of the directors of the Bank of the United States states that, ‘It is understood that soon after that event [the inauguration of Jackson in March, 1829], a meeting was held in Washington to consider the means of perpetuating their new authority, and the possession of the Bank was among the most prominent objects of the party assembled.’”

Therefore, it may be stated that the United States, through political madness and insane party strife in 1832, and the supposed necessities of the Civil War, was torn from the safe moorings of a scientific banking system and has drifted far out on the sea of chance, and seems to have completely forgotten the great lesson she taught both France and Canada.

However, the sound principles inculcated by Hamilton and the splendid achievements attained by both the first and second banks of the United States left their impress upon the banking laws of Canada and not less than thirteen different States, each resorting to the charters of these two banks as models when finally compelled by local conditions to revise their banking laws, which because of ignorance and prejudice always

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seem to be the very last subject to be considered by States as well as by Nations.

BANK CREDIT CURRENCY IN CANADA

A careful investigation, I think, will disclose to any intelligent student that, owing to the success of both the first and second United States Banks and the close business relations then existing between this country and Canada, following this same fundamental principle, laid down by Hamilton the Canadian government granted three bank charters in 1822; and today, excepting the Bank of France alone, Canada has the best banking system in the world.

The charters of these three banks contained the following provisions:

"To issue notes to circulate as money; but with no limit other than the general limit for all obligations."

That general limitation was this:

"The total liabilities shall not exceed three times the capital."

B. E. Walker, president of the Canadian Bank of Commerce, says in his "History of Banking in Canada":

"It may be safely said that these first charters are the substructure on which all subsequent improvements have been built and that no very radical changes have been at any time necessary."

During the last quarter of a century, at least, the annual fall expansion of currency in Canada has averaged about four dollars per capita, while the total circulation has ranged from \$15 to \$20 per capita.

These same figures would give the United States an

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annual expansion and contraction in its currency of \$400,000,000 and a total average circulation, as already pointed out, of \$1,500,000,000.

BANK CREDIT CURRENCY IN LOUISIANA

After having suffered more than her full share of misfortunes, Louisiana passed a general Bank Act in 1842 which Horace White says, "was, in nearly all respects a model for other States and Countries."

The right of note issue was unlimited, but the banks were required to carry a coin reserve of thirty-three per cent of all their liabilities. Not one of those banks suspended in 1857 and all of them were redeeming their notes in gold when General Butler took possession of New Orleans. Many of the notes had been cut in halves and quarters to increase the quantity of the currency, but the pieces were all honored by redemption. In 1860 Louisiana was the fourth State in amount of banking capital and held more specie than any other State except New York. In 1860 her bank capital was \$24,-496,866. The notes outstanding were \$11,599,313 and the deposits were \$19,777,812.

BANK CREDIT CURRENCY IN KENTUCKY

In 1834 three charters for banks were granted in Kentucky with the right to issue notes in double the amount of their capital. These banks were the "Bank of Kentucky," "Northern Bank of Kentucky" and the "Bank of Louisville."

On May 9, 10 and 11, 1837, the banks of New York, Philadelphia and Baltimore suspended. The banks of Pittsburg and Cincinnati followed suit. On May 18th a run commenced on the banks of Louisville and \$45,000 was drawn out. The next day the Kentucky banks

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suspended, although, having \$1,900,000 in specie against \$3,300,000 in circulation.

Referring to these banks in the panic of 1857, John Jay Knox says:

"The panic of 1857, which was severe in many parts of the country and which caused great alarm in Kentucky, produced no ill effects on the banks, all of them continuing to pay in specie even after the New York banks had suspended."

In 1860 the capital of these banks was \$12,660,670 and the circulation was only \$13,520,207, although it might have been twice the capital or \$25,321,340.

BANK CREDIT CURRENCY IN OHIO

Ohio, too, had run the gamut of disastrous banking, and in 1845 the demand for reform was met by a Bank Act authorizing the issuance of currency in accordance with the Hamilton principle of the interconvertibility of bank-book credit, bank-note credit and gold. A bank with a capital of \$100,000 could issue "*Bank Credit Currency*" to double the amount of its capital. John Jay Knox, speaking of the banks organized under this law, says:

"The banks authorized under the laws of 1845 and 1851 were uniformly successful and furnished a currency for the people, not a dollar of which was ever lost by the holder thereof."

The capital in 1863 was \$5,674,000, the circulation was \$9,057,000 and the deposits were \$11,697,000.

BANK CREDIT CURRENCY IN INDIANA

In anticipation of the death of the second United States Bank there was passed in 1834 in Indiana a char-

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ter for the "State Bank of Indiana," which, with the record of its successor, the Bank of the State of Indiana, was without exception the most successful and remarkable single State banking institution in the history of the United States.

This was authorized to issue an amount of "*Bank Credit Currency*" in double the amount of its capital.

No bank in the country stood higher. In all the Western and Southern States its notes commanded a premium, and in the East were taken at a very small discount. In 1857 all the banks in the East except the Chemical Bank of New York suspended specie payments, and all in the West except the State Bank of Indiana, the banks of Louisiana, Kentucky and Missouri.

In 1850 the State Bank of Indiana had seventeen branches. The circulation of the bank was \$3,548,267, and its deposits were only \$668,610.

In 1860 it had twenty branches; its capital was \$3,323,850, its circulation was \$5,753,610 and its deposits only \$1,232,861. These figures and the marvelous success of this bank demonstrate two facts: (a) *that if a bank can supply its customers the form of bank credit their peculiar wants call for, the habits of the people will determine whether the bank notes will exceed in amount the deposits;* (b) *that an issue of "Bank Credit Currency" seems to check over-expansion and is one of the best guarantees of soundness.*

BANK CREDIT CURRENCY IN IOWA

As a result of the horrors of the panic of 1857, although the old constitution of Iowa contained an absolute prohibition against bank charters, the new constitution of the State provided for the adoption of bank charters through a referendum, by a vote of the people.

The legislature passed a law in March, 1858, incor-

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porating the State Bank of Iowa, and it was approved by the people the following July. This bank was permitted to have twenty branches and to issue "*Bank Credit Currency*" in double the amount of its paid-up capital. The completeness, the perfection of this charter, which was largely followed in its details by the National Bank Act, shows the evolution of American banking down to that time, and gives evidence throughout of the influence of banking experience, especially that of the Bank of the State of Indiana.

The success of this bank was marked from the very outset; but, when the national banking system was established and the ten-per-cent tax was imposed upon the circulation of State banks, it was compelled to go out of business, the entire circulation being redeemed without the loss of a cent.

Its capital was then \$1,048,200. Its circulation was \$1,439,764 and its deposits were \$2,851,462. Here again is accentuated the fitness of such a banking system to serve the needs of the people.

Undoubtedly the people of both Indiana and Iowa were able to use their credit to more than double the amount that would have been possible without the advantage of the "Bank Credit Currency" principle,—the power to exchange their credit for the current credit of these banks.

BANK CREDIT CURRENCY IN MISSOURI

As a consequence of the disastrous conditions resulting from the panic of 1837, the Bank of the State of Missouri was chartered with the power of issuing currency at the rate of three to one for the specie held in its vaults. In 1857 seven more banks were chartered upon the same conditions. In a short time the State was supplied with a "*Bank Credit Currency*." In 1859 the capital of these banks was \$5,796,000. The authorized circulation was

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\$11,700,000; but there was only \$6,069,000 of it out, while the deposits were only \$3,123,000.

SUFFOLK SYSTEM

Nowhere in the whole range of banking experience have so many things, which the student of this subject ought to know, been demonstrated beyond cavil as in the six New England States under the Suffolk System. Here were six States, the laws varying in each. Portions of these States were far more remote from Boston in those days than any part of the United States is from any other part today so far as business relations and convenience are concerned.

There were no railroads nor telegraph lines nor long-distance telephones. Indeed, almost every essential to anything like a sound banking system as conceived and observed from the standpoint of today was wanting. There was no law requiring a uniform reserve. There was no law requiring coin redemption. There was no uniform law requiring bona fide capital. There was no check upon the amount of notes that might be issued if a bank was dishonestly inclined, as each bank provided its own notes.

In 1860 there were 504 banks in New England. There are only 740 banks today in the same States. Can a fair-minded, impartial man deny that the conditions today are vastly in favor of better results than they were then? One law for all; a bona fide capital; a required reserve; a system of redemption established by law; notes furnished by the United States government; a common national supervision! These all unite to compel the admission that any system that could prove its adequacy under such adverse conditions as existed from 1840 to 1860 would certainly approximate perfection today.

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To all intents and purposes the possible issues were without limit. The actual circulation in 1840 was only twenty-three per cent of that permitted. The circulation of 1850 was only forty per cent of that permitted; and the circulation in 1860 was only thirty-six per cent of that permitted. Why? Simply because the notes were sent for redemption daily just as checks are. And you could not keep out any more than the public would use. The amount of "Bank Credit Currency" in circulation was always just equal to the demands of trade. It was never too great. It was never too small. It was always exactly adjusted to the needs of business.

During every year from 1840 to 1860 except two the note issues were greater than and usually nearly double the deposits, illustrating with what certainty and perfect nicety such a system adapts itself to the ever-varying needs of the people who were fortunate enough to have it, and demonstrating how it invariably, with peculiar fitness, meets the needs of the rural districts where currency and not checks are especially required.

A most marvelous exhibition of this interplay and interchange of bank-book and bank-note credits occurred in these six New England States as a result of the panic of 1857. The authorized note issue of the four hundred and ninety-five banks constituting the Suffolk System with capital ranging all the way from \$25,000 to \$500,000 each, was \$131,000,000. In 1856, the year before the panic, the note issue amounted to \$50,000,000 and the deposits amounted to \$32,000,000. In 1857, as a result of the panic, the note issue rose to \$55,000,000 and the deposits dropped to \$25,000,000. In 1858, the year after the panic, the note issue had fallen to \$36,000,000 and the deposits had risen to \$47,000,000 or there had been a conversion of about \$20,000,000 of bank-note debts into deposit debts. The depression had come and the exigency for cash had disappeared.

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Do not fail to observe three important facts in this connection.

First. That although the banks were authorized to issue \$131,000,000, they never exceeded \$57,000,000, which was the highest point of circulation. This was reached as a result of the panic of 1857; and the average issue was \$23,000,000.

Second. That there was a perfect adaptation of the deposits and note issues to the peculiar and ever-changing demands of the people during the panic and during the depression of trade that followed the panic; and that in normal times the circulation in every section of New England reflected precisely the peculiar demands of all classes of the people.

Third. That the number of banks in New England in 1856, the year before the panic, was 495, and in the year 1858, the year after the panic, 499; or four more banks the year after the panic than there were the year preceding the panic,—an unquestioned tribute to the principle of "*Bank Credit Currency*" and coin redemption.

Now mark this, that the very heart and the very soul of the Suffolk System was in the fact that the notes were *redeemed daily in coin in Boston*. So good were these notes considered to be throughout the entire West that at Buffalo, Chicago, Milwaukee and all commercial points in the then Far West they were always taken at a premium of from one to five per cent. It was not the size of the bank of issue that made them good and desirable, but the fact that they were *redeemed daily in coin in Boston*.

SUFFOLK SYSTEM COMPARED WITH NATIONAL BANK SYSTEM

When the soundness of this system is tested by a comparison with that of the national banks, the results more

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than justify the assertion that the Suffolk Bank System of New England was incomparably better than the National bank system; for when the conditions during the twenty years from 1840 to 1860 are compared with those of the last fifty years, all must admit argument is futile and the conclusion is inevitable.

Mark this, and note it well, that while a tax of only one-eighth of one per cent would have paid all the notes of the banks that failed under the Suffolk System from 1840 to 1860, it would have taken a tax of one-fifth of one per cent on all the notes outstanding issued by the National banks to pay the notes of the failed National banks, during the last fifty years.

DESTROYED BY TEN-PER-CENT TAX

Complete and perfect as was the success of the principle of "*Bank Credit Currency*" in every instance where tried, during the seventy-five years prior to 1860, exigencies of the War led Secretary Chase to impose a tax of ten per cent upon all bank notes for the purpose of compelling the banks to buy bonds to secure the National bank currency. *This ten-per-cent tax destroyed the Suffolk System with all the other banks founded upon the same principle,—the interconvertibility of bank-book credits, bank-note credits and gold coin.*

THE IMPORTANT CONTRIBUTION OF THE NATIONAL BANK ACT

While this great fundamental principle of banking economics was made inoperative by the ten-per-cent tax imposed upon all bank notes, there grew out of the supposed necessities of the War two significant contributions to the right solution of our banking problem.

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First. The National government by printing and furnishing the National bank notes to the respective banks gave them all a uniform character and uniform appearance.

Second. By compelling all National banks to accept all National bank notes at par, the value of the notes was made universal throughout the United States.

Uniformity in character and universality in value of National bank notes were the great contributions of the National Bank Act to a truly American banking system if we will only take advantage of them in constructing it.

EXPANSION AND CONTRACTION OF BANK CREDIT CURRENCY

"*Bank Credit Currency*" increases and decreases precisely as checks and drafts do, always rising and falling in perfect accord with the ever-varying demands of trade. The Bank of France has increased and decreased its currency \$100,000,000 in a single week.

The Suffolk System of New England showed an expansion and contraction of \$20,000,000 as a result of the panic of 1857 or a conversion of \$20,000,000 of bank notes when not needed into bank deposits subject to check, or a conversion of twenty-five per cent of its entire assets from "*Bank Credit Currency*" into bank credits or deposits subject to check.

In Canada the variation every fall is approximately four dollars per capita. The same natural play of bank credit here in the United States would give us about \$400,000,000 of additional currency every fall, and this is just about the amount of currency that we are in the habit of shipping from one point of the country to another during the fall season and then back again when the need is passed. How much more natural, convenient, economical and advantageous it would be simply to convert \$400,000,000 of bank-book credits or deposits

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into current credits or "*Bank Credit Currency*" than to go on forever shipping this vast amount of cash about the country instead of creating it wherever and whenever needed.

Again, it is a fact that has been demonstrated repeatedly, indeed wherever bank credit has been free to take the form desired by the people, whether "*Bank Credit Currency*" or deposits subject to check, that the circulation has varied from twenty-five per cent to one hundred per cent of the capital of the banks in the great centers of trade and from fifty to two hundred per cent in the smaller cities, rural towns and agricultural districts.

Now, I assert that the farmers and all the great producing classes have just as much right to convert their intelligence, their ability to produce, their honor, their industry, their personal credit, expressed in their promissory notes, into "*Bank Credit Currency*," the form of bank credit they require in their industries, as the manufacturers and merchants have to convert their intelligence, their productive power, their honor, their credit, expressed in their promissory notes into deposits subject to check, the form of bank credit that will best serve their purposes.

Again, I assert that the bankers in the smaller cities and agricultural regions should have the privilege of furnishing their customers in the regular course of business that particular form of bank credit that is in demand in their respective communities; that they should not be compelled to buy and pay one dollar or one hundred dollars for something that they can, with far less trouble and at only one-sixth of the expense, create out of their own credit.

The farmers and country bankers should have the advantage of this enormous saving. They should have the opportunity of dividing it between themselves. The application of this principle would increase the bank deposits from one billion to two billion dollars, from ten

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per cent to fifteen per cent, our present commercial deposits being \$12,000,000,000.

LIFE OF BANK CREDIT CURRENCY

If any additional evidence were needed to demonstrate that bank credit notes are only another form of deposits and that they are peculiarly the deposits of the farmers and wage-earners,—the great producing classes of the country as distinguished from the capitalistic class,—it is only necessary to observe: First, that the farmers and wage-earners, the great producing classes, are the greatest users of cash; and, second, that the life of "*Bank Credit Currency*" approximates the average life of checks and drafts, *while the life of our National bank notes and our United States notes is, and of our Federal Reserve notes will be about the life of the paper upon which they are printed.*

The life of the Scotch bank note is fifteen days.

The life of the Canadian bank note is thirty days.

The life of the Suffolk bank note was thirty-five days.

The life of the National bank note averages about five hundred days.

If we should adopt the Canadian bank note system the life of our bank notes would average from fifteen to thirty days. This would be largely due to the efficiency of our Clearing-House system, which is without a parallel in the world. "Bank Credit Currency" is distinctly the bank deposit of the masses of the people.

AN OLD APPARENT DIFFICULTY MET AND EXPLAINED

I am aware that there are those who say that it is not a question so much of more currency as of additional bank credit growing out of the privilege of rediscounting.

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But if instead of sending into the harvest, cotton and corn fields every fall from \$300,000,000 to \$500,000,000 of *our reserve money*,—gold certificates,—we could send that amount of “*Bank Credit Currency*,” or what would be more to the purpose, create it on the spot, does anyone doubt that our discounts and rediscounts would take care of themselves? Can anybody believe that the question of rediscounts would ever have arisen?

AMOUNT OF CURRENCY, HOW DETERMINED

From these facts it must be apparent to anyone that, granted the privilege of choice between bank-book credit and bank-note credit, the habits of the people will always determine whether or not the amount of “*Bank Credit Currency*” in any country will in the average exceed the amount of bank deposits subject to check.

It will also be observed that bank deposits subject to check and “Bank Credit Currency” are identically the same thing in principle,—that is both are deposits: one a deposit held by the customers of a bank, and the other a deposit held by the people, by the public.

PRINCIPLE IS UNIVERSAL IN APPLICATION

Nor should it have escaped your notice that the principle is just as uniform and universal in its application and operation as that of deposits subject to check, and has always worked equally well at all times, in all countries and under all circumstances and conditions wherever and whenever tried. It has been in operation in France since 1803. The Bank of France has deposits amounting to only \$120,000,000, while its “*Bank Credit Currency*” outstanding before the war was more than ten

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times as much, or \$1,200,000,000. Scotland has nine banks of issue. This principle has been in operation there for a period of two hundred and twenty years. Canada has twenty-four banks of issue. It has been in operation there for a period of nearly one hundred years. Prior to the Civil War it was in successful operation in thirteen different States, and its currency was issued under *General Banking Laws*, as in Louisiana; by single banks with branches as in Virginia, Kentucky, Ohio, Indiana, Iowa and Missouri; and by five hundred individual banks, without any branches, in the six New England States. *Nothing is lacking in proof, therefore, to demonstrate that we are dealing with a principle that is in no way limited in its application or operation any more than deposits subject to check are limited. The principle is identically the same.*

WHY BUY WHAT YOU CAN BETTER MAKE?

In the face of this vast array of evidence will anyone have the hardihood to say that this New Castle Bank should be compelled to take \$200,000 of its bank paper, if it had any that it could use for that purpose, which is very doubtful, and buy \$200,000 of the notes of the Federal Reserve Bank, and so lose the interest on this \$200,000, or \$12,000 every year, when at a cost to this bank of only \$1,800 the interest on \$30,000, or a fifteen per cent reserve against \$200,000 of "*Bank Credit Currency*," this bank can furnish at any hour of the day and during any day in the year, year in and year out, without any expense, inconvenience or trouble whatever, excepting only the necessary book entries, the best and cheapest currency in the world?

For certainly everyone will be compelled to admit that if the \$200,000 of its bank paper is good enough to buy \$200,000 of Federal Reserve notes with, it is certainly good

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enough, together with the remaining assets of \$1,700,000, to secure the payment of \$200,000 of "Bank Credit Currency," which would be a first lien upon its entire assets, consisting of \$200,000 capital, \$300,000 surplus and undivided profits and \$1,200,000 deposits, or a total of \$1,700,000.

STRENGTH OF BANK CREDIT CURRENCY AND FEDERAL RESERVE BANK NOTES COMPARED

If the banks of the United States are coordinated and united as they should be into a truly national banking system, and are permitted to supply the country with \$1,500,000,000 of "*Bank Credit Currency*" which is made a first lien upon the assets of the respective banks issuing it, this currency would be secured by approximately our entire bank assets of more than \$27,000,000,000 and an insurance fund of \$75,000,000 to redeem bank notes immediately in case of a bank failure.

Compare the inherent strength of these notes with the notes of the Federal Reserve Banks, and it will be observed and admitted that the "*Bank Credit Currency*" is incomparably stronger, and yet these "*Bank Credit Notes*" will retain all of their pure credit character. They will remain instruments of credit, precisely of the same nature as checks and drafts, and herein lies their great economic usefulness to the commerce of the country.

On the other hand, the credit character of the Federal Reserve Bank notes has been completely destroyed by putting them on a par with United States notes which are legal tender, and by the many difficulties surrounding their issue and the fact that their issuance is never related immediately to current business transactions in the production and transportation of commodities.

Then why all this endless trouble and sixfold expense in supplying currency? Will anyone say that there is the slightest difference in the world to the bank

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whether its liabilities of \$100,000 or \$200,000 are in deposits subject to check, or in "*Bank Credit Currency*" outstanding, provided the *same reserves* are required against both these liabilities, and both liabilities are paid over the counter of the bank, and through the Clearing House every day, precisely as they are now paid in Scotland, France and in Canada, and as they were paid at the Suffolk Bank for more than forty years?

EXPENSE AND METHODS OF ISSUANCE COMPARED

Compare this natural simple process of providing the exact amount of currency necessary to meet every demand of trade, instantly, at no greater cost than the ink and time it takes to make the book entries, all its pecuniary advantages and the incalculable economic value to the great mass of actual producers of our wealth, with the triple-gearred, overgrown, foreign, mechanical contrivance for manufacturing currency, known as the Federal Reserve Bank Act.

The Federal Reserve Board, located at Washington, a body of seven men that can be removed at any moment at the will of the President, are to decide whether any currency at all shall be issued, and if any is to be issued, what particular section of the country shall get it. A representative of the government located at each Federal Reserve Bank holds the bag and can indicate his approval or disapproval by saying "thumbs up or thumbs down," according to his personal caprice or political bias. If his decision should be favorable, under the cast-iron rules made by the Federal Reserve Board, you must await the action of the board of directors of the local bank upon your application for a loan with which you are going to purchase the necessary currency to accommodate your customers.

If you should pass the last intrenchment, you cull

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and select and you select and cull again, wondering whether the paper you send in will pass muster. You do it up in a package, you ship it by express, always mindful when you are paying the charges that there will have to be repeated renewals by withdrawing paper from time to time and replacing it with something else if you happen to have anything left that will prove acceptable.

Every single one of these hundred transactions or more, all the trouble and annoyance, and every single cent of expense, including the rent for offices and salaries paid, are absolutely thrown away,—literally wasted. But that would not be so bad if that were all. No, that is a very small part indeed of the actual loss and damage done to the people and the productive industries of the country.

The complete destruction of the natural function of every bank to provide *current* bank credit is a hundred-fold more injurious, more detrimental to the business interests of the country, than the pecuniary loss growing out of the actual cost of carrying this gigantic piece of useless machinery.

But what will prove in the end a hundredfold more detrimental even than that is the *coin character* a bank debt has been given or made to assume in the minds of the public, because under the circumstances that have been created by this act all these Federal Reserve Bank notes must soon be declared a legal tender,—and this step is the certain, the inevitable prelude of an indescribable commercial disaster, sooner or later, according to the conditions of our international exchanges.

PENALTY FOR AN OLD ECONOMIC CRIME

Because at certain times and places in the past the people, including the bankers, have insanely thought that bank

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notes were money and treated them as money, to their great misfortune, are all the people of the world to be fined and penalized for all time to come, and compelled to pay for some elaborate, gigantic, expensive machine, constructed to control empirically and forcibly bank credit in the form of circulating government notes guaranteed by banks, when there is not now, never has been and never can be, but one true and scientific method of controlling all bank credit,—and that is through its current daily redemption in gold?

TRUE TEST OF BANK CREDIT

There is no more reason for trying to control artificially bank credit in the form of a conglomerate government bank note than there is for trying to control bank credit in the form of deposits subject to check,—not a bit; for they are identically the same thing. Both should be subjected to the same never-failing and only infallible test, current daily redemption in gold. That is the only reliable touchstone of all bank credit.

AN OLD ERROR EXPLODED

There are some people even now who are obsessed with the insane conception that a bank debt in the form of a bank note is money, and that no bank should have the power to make the inordinate profit growing out of issuing "*Bank Credit Currency*," or as they ignorantly say, "create money"; it never having occurred to them that a bank will make more profit out of a deposit of \$100,000 subject to check, than out of issuing \$100,000 of "*Bank Credit Currency*." But this is literally true, because if both of these forms of bank credit are treated alike, the reserve held against each being the same, the cost of the

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plates and the printing of the notes will measure the loss in issuing the "*Bank Credit Currency*" as against taking the deposits subject to check. There is no advantage whatever to a bank in issuing "*Bank Credit Currency*" instead of taking the same amount in the form of a deposit subject to check, *except alone to accommodate its customers at the least possible expense and trouble to itself.*

BANK CUSTOMERS' RIGHT

Now, it is the inherent, natural right of a customer of a bank to have that form of bank credit which will best serve his purpose, either a deposit subject to check or the credit of the bank in the form of Credit Currency. *The farmer who is a customer of a bank has just as much right to convert his corn, cotton, wheat and manufactured products into his bank's currency as into its cashier's checks or drafts or a credit upon its books subject to his checks.* And the wage-earners and farmers who use currency instead of checks are just as much entitled to the cheapest form of bank credit that will serve their purpose as the capitalist who carries a large bank balance.

DUTY OF BANK

And it is the absolute duty of the bank to furnish its customer that form of bank credit which will best serve his purpose, and at the lowest possible cost; and therefore if he wants currency, to furnish him "*Bank Credit Currency*" because it is the cheapest and best."

DUTY OF GOVERNMENT

On the other hand, it is the duty of the government to compel the bank to keep all its credit as good as gold by currently redeeming it in gold.

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A FUNDAMENTAL BLUNDER

From this most natural, most simple, most direct, most economical, most scientific, most perfect method of supplying the demands of trade with the *safest currency in the world, excepting gold itself*, the Federal Reserve notes are as far removed as the machinations of man in his superstition, prejudice and ignorance could make them. The framers of the act are starting now right where England began in 1800 and where Germany began in 1873 and in the end are destined to the same disastrous fate.

The authors of the Federal Reserve Act describe with tragic detail how they have intrenched, buttressed, barricaded, fortified and removed their Federal Reserve notes from all possible danger, not realizing that every single step they took in this direction was only additional evidence of deeper and still denser ignorance. It is their boast that these Federal Reserve notes are so safe that they are fit to be legal tender, and should be regarded and treated as money; not realizing apparently that it was this *very insane idea of thinking of debts in the terms of money that has led to all the errors of thought in which they themselves are now hopelessly floundering and blindly leading this government into tragic difficulties and indescribable disasters*.

If the people of Europe, both in England and on the continent, had not during the first part of the last century practised this very same vicious habit of treating bank debts as money upon which they based still other debts, other demands for money, and so on, ad infinitum, until all the gold and silver was driven out of the various countries where this practise prevailed for the time being, the Federal Reserve Act would have been an impossible conception. England in a frantic moment, because of what she had suffered on this very account and because she did not see clearly, or, what is the more

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exact truth, because her legislators utterly disregarded the "Bullion Report," in their ignorance, as it has since been demonstrated, struck out of her banking life all bank credit in the form of bank notes, by limiting the right of note issue to the Bank of England, and to an issue of notes based on gold alone, or to an issue of gold certificates, for that is just what the Bank of England notes are.

NOTES OF BANKS OF ENGLAND, FRANCE AND GERMANY DISTINGUISHED

The greatest caution should always be taken not to institute any comparisons nor draw any conclusions that involve the assumption that the notes of the Bank of England and the notes of the Bank of France are of the same character, because one is essentially a gold certificate while the other is essentially a credit note. The result has been to develop in England the most exclusive deposit and check system in the world; while in France, as a result of her credit-note system, they have the most exclusive bank-note system in the world.

The notes of the Imperial Bank of Germany are not identical in character either with the notes of the Bank of England or with the notes of the Bank of France, but are of a hybrid nature with a specified reserve, and do not possess the distinguishing virtues of either of the other two.

THE BANK OF ENGLAND STANDS ALONE

Fortunately for the world, France, Scotland and Canada have preserved for all observing and thoughtful statesmen the invaluable principle of a true "*Bank Credit Currency*," while it has been left for England to demon-

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strate through the operations of the Bank of England that the control of the movement of gold to and from a country should not be complicated by the concurrent issuance of *LEGAL TENDER credit bank notes*, as it is practised by Germany. This is the great disturbing element that is always interfering with the control of the movement of gold in Germany. It is an obvious fact to all those who try to get gold out of Berlin, that for some reason all sorts of difficulties are thrown across their pathway.

GRESHAM'S LAW

The poorer money always drives the better money out of circulation. From 1791 to 1832 a differential of from one-half to one per cent in favor of silver drove all the gold out of the United States.

Money that can be bought for less than one hundred cents on the dollar is poorer than gold, and if it can be used where gold ought to be used or instead of gold, it will displace gold or drive it out of circulation and out of the country.

If bank notes upon which a profit can be made like our National bank notes or the Federal Reserve notes are used as reserves they will, just to that extent, displace gold and drive it out of the country.

For a bank note is just as much cheaper or poorer than gold as the profit upon it amounts to. If the profit upon bank notes is two per cent and they can be used where gold ought to be used, or in place of gold in the performance of the function of money, then the bank note is worth only ninety-eight cents on the dollar as compared with gold. In one city a certain National bank, just to make the profit on circulation, had a trust company in another city put \$3,000,000 of its bank notes into the reserves of that trust company and at the very bottom of the pile so that they would not be disturbed.

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By doing this they displaced \$3,000,000 of gold and drove it out of the country. This is the operation of Gresham's Law. This law is constantly at work in Germany because that country treats its bank notes as money and, as a consequence, Germany is under a constant strain to overcome it.

In the face of this obvious fact, and in defiance of this great fundamental economic law that the poorer money always drives out the better, which is as powerful and certain in its ultimate operation as the law of gravitation itself, the framers of the Federal Reserve Act, blindfolded by superstition, prejudice and dense ignorance, walked directly into this bottomless pit; and now we only await the day of a sad awakening. Already the deadly work of this stupendous economic blunder has begun and is steadily progressing day by day as the amount of bank debts, in the form of Federal Reserve notes, increases, for only seven thousand out of thirty thousand banks are prohibited from using them as reserves. The effect is demonstrated by the fact that the aggregate amount of National bank notes and Federal Reserve notes has been increasing ever since the Federal Reserve Act was passed, even though there has been a depression in business and therefore there actually should have been a contraction instead of an expansion of this particular form of bank debt.¹

Everyone who knows anything whatever about this question knows that the Federal Reserve Act was nothing but the reenactment in this country of the German Bank Act. Already we can see here precisely what has occurred in Germany.

From 1891 to 1895 the gold reserve of the Reichsbank averaged \$250,000,000. In 1911 the reserve stood at \$251,750,000, or a gain of only \$1,750,000 in twenty years of almost astounding commercial development.

¹ The average increase per month has been about \$15,000,000, the total outstanding Nov. 5, 1910, being \$170,310,000.

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With what certainty Germany was moving toward an economic cataclysm every deep student was aware, and now he fully appreciates what our own danger is. But will the supporter of the Federal Reserve Act venture to tell us that all the State institutions are coming into the system and that then all banks will be prohibited from using the notes as reserves? What a fatuous state of mind he must be in! There are about 20,000 State banks or trust companies, and only twenty-nine have entered the system in nine months. The opposition, the hostility to this foreign organization is greater than it has been at any time since it intruded itself into our domestic affairs.

Every close observing student of this subject knows that the first statutory change of any significance whatever will be to make the Federal Reserve notes legal tender precisely as Germany did her notes through compulsion three years ago. This is the natural and necessary sequel to the disease. There can be no possible escape from the result and then we will be just where Germany was at the outbreak of the war, ready to collapse at the first real strain.

THREE REASONS WHY THE FEDERAL RESERVE NOTES MUST BE MADE LEGAL TENDER

First. The man who has common sense and an appreciation of the force of logic will argue that if the \$346,000,000 greenbacks or United States notes are legal tender, why should not these Federal Reserve notes be made legal tender. While a ten-dollar greenback bears these indefinite words: "The United States will pay the bearer ten dollars," no time or manner being mentioned, the Federal Reserve note bears these positive and specific words, "The United States will pay the bearer ten dollars on Demand." Besides, the Federal Reserve note is guaranteed by one of the banks which

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is supposed to have liquid assets of some kind to make its guarantee good. Certainly if either note from the standpoint of its terms and character is entitled more than the other to be made legal tender it is the Federal Reserve note. No sane man will deny that and the result will be that the insane man will win and all the Federal Reserve notes will be made legal tender. No one can refuse to vote for the proposition upon any ground of reason.

Second. The man who is totally ignorant of all history and the economic idiot who could not appreciate the potential facts of history even if he should read them,—some of whom participated in the passage of the law,—will continue to hammer away in season and out of season in favor of making the Federal Reserve notes legal tender. And as there are now and have been in the past, there will be in the future a large number of fiatists, so called greenbackers who will approve and applaud. When the stress of times comes over the land, the political demagogue will harangue the populace and tell the people that prosperity lies in more legal tender money and that it will take only a single sentence to make them all prosperous, rich and happy, and that that sentence is this: "All Federal Reserve notes are hereby declared to be legal tender for all debts public and private." This will be the prelude to the financial earthquake that will be sure to follow.

Third. If by any chance these Federal Reserve notes should escape their predestined mission because of the reasons already adduced, the time is not far distant when economic necessity will compel this step, precisely as it compelled the German government three years ago to make the notes of the Imperial Bank of Germany legal tender.

Germany has been making identically the same mistakes, indeed traveling over identically the same economic road, that England trod during the first half of the last century,

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from 1800 to 1844, but with greater caution, and it is true with some additional safeguards that will delay the catastrophe and correspondingly increase the force of the disaster when the cataclysm comes as it inevitably must.

The successive steps leading to this certain and dreadful fatality are these: (a) the destruction of one of the essential functions of banking by taking away the true credit element of bank notes; (b) the endowment of a bank credit,—a bank debt,—by statute, with the character and prestige of a piece of money; (c) the fraud practised upon the people by compelling them to take something for money which is not money, but only a debt,—itself a demand for money.

You might as well try to build a tower a mile high at an angle of forty-five degrees and expect that it would not fall as to assume that such a course in banking economics could result in anything but overwhelming disaster.

IMPORTANCE OF USING GOLD ALONE AS MONEY ILLUSTRATED

That the Bank of England has the most positive, complete, perfect and scientific control of the movement of gold of any institution in the world all agree. That this clear, undoubted and significant advantage is due to the fact that there are no legal-tender credit notes, as in Germany, nor any other form of debt used as reserves in England, there can be no possible doubt. The constant operation of Gresham's Law, whereby the poorer money is always displacing and driving out the better, is not a force to be overcome in London or anywhere else in Great Britain. Gold, and gold alone, is used to perform all the exclusive functions of money, and constitutes the only basis of both domestic and international transactions. Under the English Bank Act of 1844 the Bank of England could carry twenty-five per cent of its reserve in silver, but the bank has never done so.

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THE TWO GREAT LESSONS OF FINANCIAL AND BANKING HISTORY

The two most clearly demonstrated facts, the two established principles of fundamental importance in the financial and banking history of the world, are:

First. *That there should be one single central reserve and that that reserve should consist of gold, and gold alone, and that the function of creating currency out of credit should not be identified with or a part of the central reserve system.*

Second. That the best and cheapest kind of currency in the world is "*Bank Credit Currency*," and that it should spring into being in the regular course of business, precisely as checks do, and be redeemed daily at the counter of the bank of issue and through the Clearing Houses precisely as checks are, for they are identical in principle, —both are bank credit, both are I O U's,—the one, the depositor's check, being *order credit*; the other, the bank note, being *current credit*.

These two demonstrated facts, these two great fundamental principles, recognized and followed to their logical conclusion, will unerringly lead us to adopt the "Central gold" reserve system of England, and the "Bank Credit Currency" system of Canada. These two being combined will give us the most natural, the simplest, soundest, the most economical and the most efficient banking system in the world, and guarantee to us every natural advantage to become the financial center of the world.

DEMANDS FOR CASH VARY AS MUCH AS DEPOSIT CREDIT

Seven men sitting in Washington are just as capable of determining what the deposits subject to check should be at every bank window in the United States, and when and what amount should be loaned as they are to decide what amount of currency shall be used by 100,000,000

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people scattered over more than 3,200,000 square miles of territory. The one is no more absurd than the other, because the demands for both forms of credit arise concurrently side by side in a million places every hour of the day, and under conditions that are arising instantaneously and changing momentarily and constantly.

For the bankers to meet these countless situations with cash which they are compelled to buy and that costs them one hundred cents on the dollar, when they could just as well, and indeed a thousandfold better, supply it by the current conversion of bank-book credits into bank-note credits, requires an infinite amount of trouble, an almost incalculable waste of capital, a most useless consumption of time and a great expense, especially to the wage-earners and agricultural classes, that the productive forces, the people, ought not to be compelled to bear; for in the last analysis labor pays the entire cost.

ALL EXPERIENCE DISCARDED

From what has been here adduced it is perfectly clear that all the banking experience we had before the War, and the one great lesson taught by the legislation growing out of the War, have been thrown into the discard by the authors of the Federal Reserve Act.

A NARROW VISION

We have in this Federal Reserve Act a gigantic and most expensive machine for serving a purpose that is literally infinitesimal in importance and consequence compared with the vast domestic business of American commerce,—the rediscounting of a class of paper that neither the great productive nor transportation business of the United States produces, nor will produce unless

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we reverse the wheels of progress at least a quarter of a century. There is not one dollar of bank paper in the United States today in every million that can be reduced to the requirements of this ill-conceived, foreign-born, useless, but most extravagantly organized structure.

FOREIGN COMMERCE INFINITESIMAL

The value of our products in 1912 was approximately \$40,000,000,000, and the exchanges resulting from the process of preparing them for the market are estimated by Prof. Irving Fisher of Yale University at \$500,000,000,000.

Our exports in 1912 were about \$2,400,000,000, and our imports about \$1,800,000,000, or a total of only \$4,200,000,000, or less than one per cent of our domestic trade exchanges. And yet it was the distorted and exaggerated vision of the framers of the Federal Reserve Act of this infinitesimal part of our commerce that determined the whole character of the act.

FALL REQUIREMENT EASILY MET

Certainly it could have been nothing else because it was not a domestic demand that our existing organization could not meet. For in the summer of 1913 Secretary McAdoo sent broadcast over the land a wholesale invitation, crying aloud, "Come unto me all ye that are heavy laden, and I will give you rest,"—that is, relief. The calls for relief from every nook and corner instead of being for a billion or two, which the Federal Reserve Bank was organized to provide, amounted only to the insignificant sum of \$37,368,000.¹

¹ The amount of commercial paper held by all the banks has averaged from June until November, 1915, about \$40,000,000, the lowest amount being \$35,580,000 to \$45,365,000, the highest.

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And again, in the early summer of 1914 the Federal Reserve Bank having failed to materialize in time to meet the overwhelming demands for crop-moving purposes, Mr. McAdoo again went before the country with the United States Treasury in his hands, and offered to give liberally to anyone who felt the need of his generosity; but there came no calls for a billion, nor for a hundred million, nor for twenty-five million even, for the Treasury Department could only rake up, after a most diligent search, requests for the trifling sum of \$23,135,844, an amount which any one of several of our present banks could have taken care of without an effort.

FOREIGN EXCHANGE AND CROP DEMANDS FOR MONEY

In a rightly constructed financial and banking system for the United States, it will appear very clearly that the foreign-exchange question and the crop-moving demand for money are only incidents and would not be disturbing factors at any time.

Having demonstrated by a wealth of banking experience before the War and by historical allusions that convenience, economy and soundness in banking are measured by the facility and certainty with which bank-book credits, bank-note credits and gold are interconvertible, and having observed that all State lines were wiped out by the uniform character and universal value given the National bank notes, it remains to take up the evolution of American Banking since the War.

COMMERCIAL BANKING

Strictly speaking, commercial banking is carried on for the purpose of aiding in the production and exchange of commodities or for the convenience of those who are

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engaged in the production, transportation and sale of commodities; and the *capital* so employed should be recognized and treated as the *Commercial Fund* of the country.

Bankers at least should always keep clearly and steadily in mind that there is a very distinct, an actual, and a profound difference between the *Commercial Fund* or active capital of the country and the savings, trust or investment fund or inactive capital of the country; and that the *Commercial Fund* should never be converted into the investment fund to such an extent, at least, as to cripple the productive industries.

A commercial bank that has converted all its capital and deposits into real estate has failed utterly to keep this important distinction in mind.

SAVINGS BANKS

Mutual Savings Banks have not increased in number and extended over the United States since the Civil War, as other banking institutions have. Indeed, for all practical purposes it may be stated that there has been no extension of the system since the War. There are not more than thirty Mutual Savings Banks in the United States west of the cities of Buffalo and Pittsburg.

The conditions of the country and the habits of the people east of these two cities, before the War, all contributed to the growth of these institutions in the extreme eastern section of the United States.

The constant and ever-increasing tendency has been for the commercial banks to add the savings-bank business to their usual commercial function; until today approximately nine out of every ten banks are carrying on, either openly or secretly, directly or indirectly, both forms of banking. And, where the amalgamation is practically complete or the practice is prevalent, a

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Mutual Savings Bank cannot start up and survive the competition, because of the advantages the Commercial Bank has with a Savings Bank Department.

The combination then, in the United States, of the commercial and savings banks business or the performance of these two functions by one institution, may be looked upon as a fixed fact and something beyond our power to prevent, even though we should agree that these two forms or functions of banking are incompatible with each other and should not be practised over the same counter or even in the same room, though at different windows.

Broad statesmanship demands therefore that all legislation of a general or national character should recognize this fact as a permanent condition of American banking.

Further theoretical discussion is useless, for these two functions of banking are irrevocably united as matters of profit and necessity.

TRUST COMPANY BUSINESS

The tremendous development of business all over the United States and the risk involved in new ventures have led to the incorporation of almost every kind of business from selling peanuts to the construction of a transcontinental railroad. The reasons for creating companies to carry on all kinds of business are obvious and well-founded.

First. Capitalists wanted to limit their liability.

Second. More capital was wanted than single individuals had or were willing to contribute, and, therefore, to obtain the necessary amount of capital, the incorporated company became the common and essential medium of accomplishment.

Third. The advantage of limiting the individual liability of stockholders and the success in starting myriads of

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enterprises that could not have had a beginning without the union of the small contributors led to the incorporation of thousands of companies which have in turn developed the spirit of cooperation which now is leading to the conversion of all business into companies greatly to the advantage of the mass of the people; for through this method they are approaching a more just distribution of the products of labor.

Such a situation has necessarily made a demand everywhere for some means of carrying out these purposes and the ubiquitous trust company is the concrete result. There is hardly a town in the United States of any size that does not have its trust company to meet the demands of that locality.

If there had been no real demand for trust companies there would have been no trust companies.

If the regular customer of some bank wanted to start a company he would naturally consult his banker and the banker in turn would want, if possible, to control the business of the new company. Both desire the same thing that the bank should act as trustee for the issuance of the stock and bonds of the new company.

In the average bank of the country town the trust business can be carried on without any extra cost to the bank, as it does not involve an extra set of clerks, nor any extra room for the transaction of such business as they are called upon to perform. And if in time it should grow to such proportions as to require additional room and help the bank will naturally provide both, because it will pay either directly or indirectly.

So universally is business carried on today through incorporated companies that the Trust Company Bank, —the usual name adopted under State charters combining the trust company business with commercial banking or savings banking, or both,—is rapidly superseding the bank that is precluded from performing the trust-company function.

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The result is that the other banks, to overcome the disadvantages under which they are laboring, because of restrictions imposed by National or State laws, organize trust companies which occupy the rear end of the banks, the downstairs, the upstairs, the adjacent building or the building around the corner with their rear ends conveniently abutting.

One of the banks is examined by a National examiner, the other by a State examiner; and all too often both examiners see the same identical securities in both, especially the high-class ones that may possibly cover a multitude of sins in both banks.

There is not a banker in the United States who does not know that, in the interest of good banking morals, good banking and the general welfare, this thing should be stopped, and that all the business should be carried on by a single institution and both institutions be examined by the same examiners.

In other words, the trust-banking business as a result of a universal demand is carried on everywhere throughout the United States where any kind of banking is carried on, and has become, because there was a legitimate demand for it, a distinct function in the banking business of the country. It is wholly immaterial whether we think it is a wise thing for the ordinary or average bank to perform this function or not. It is doing it, and it is the work of the statesman to meet the problem as it presents itself for solution.

The performance of trust duties, then, by the banks of the country may be set down as a fixed fact and we cannot change it even if we desired to do so.

But taking all the cities of the United States where banks are located and applying the principle of the greatest good to the greatest number, and of giving to all the people all the advantages of modern banking at the least cost and with the least inconvenience to them, all banks should be allowed to perform the trust function.

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The operations of the modern bank, then, in meeting the requirements of trade and fulfilling all the conditions of business life as it has developed through progressive evolution during the past fifty years constitute four distinct functions:

First. Commercial-bank function.

Second. Savings-bank function.

Third. Trust-bank function.

Fourth. Note-issue function.

All four of them are the natural and economic functions of a modern banking business as it is carried on in the average American city today.

ALL WOULD GAIN

It may be stated without any fear whatever of successful contradiction that there is not a single commercial or savings bank or trust company that would not be the gainer if it were empowered to perform these four functions. No bank in the United States today is lawfully performing them all, although many banks are performing them indirectly and, therefore, with a certain degree of difficulty and additional expense.

IGNORANCE AND SELFISHNESS

VS.

INTELLIGENCE AND PATRIOTISM

It is utterly astonishing how narrow, selfish, short-sighted and inimical to their own interests and their country's welfare the views of many bankers are. They view the whole financial and banking question from the point of view created by today's and tomorrow's profits at their own desks. Their vision is bounded by their bank counters. They chronically and constitu-

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tionally oppose any change, whatever it is, lest it may possibly disturb their present per cent of profit. In their opposition to these progressive changes they are just as absurd, ridiculous and idiotic as those laboring-men who are opposed to all inventions and discoveries which increase the productive power of each individual man, although it has been just these labor-saving devices that have raised wages from five cents to five dollars per day.

DEPARTMENTAL BANKING

When broadly viewed and commercially and economically understood, as applied to the United States as a whole today, "Departmental Banking" is the most advanced, comprehensive, mechanical labor-saving device known to the complicated affairs of our modern business methods. It is the only direct way of harmonizing the conflicting forces that are set in motion by our vast system of production, transportation, exchanges, savings, trusts and corporate interests. Commercial life is neither as simple nor as slow as it was even twenty years ago.

Departmental Banking, then, is in perfect accord with the operation of the principles of ever-increasing efficiency due to the coordination and unification of all the elements entering into our modern banking life.

If you are a national banker can you not see that you would be the gainer by having the power to conduct a savings-bank business, a trust-company business and to have the untrammelled right of note issue as they practise it in Canada?

If you are a state banker and are engaged in a commercial and savings-bank business, can you not see that you would be the gainer by being authorized to do a trust-company business and to have the right of note issue as they practise it in Canada?

If you are a trust-company man can you not see that

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it would be to your advantage to do a commercial and savings-bank business and to have the right of note issue as they practise it in Canada?

All of you should note and remember that the right to issue credit currency to the amount of your capital is giving you an additional deposit equal to the amount of your capital against which you will carry the same reserve and for which you will pay a two-per-cent tax, precisely the rate you are paying on your large checking-accounts.

THE BANK UNIT

Every banking unit that has a right to exist at all should have the privilege of performing the four functions of modern banking: commercial-banking, savings-banking, trust-banking and note-issuing. They are privileges to be exercised at its option. Circumstances will always determine whether it is to the advantage of any given bank to perform any one or all of them. It may happen that in a few of our large cities, especially under very old and fixed conditions, some institutions will preferably continue as they are.

However, a man living in a community where a bank with a capital of \$50,000 is regarded as a great institution, possibly as the leading institution of that section of the country, has just as much right to have that bank handle his estate after he is dead and gone as the multi-millionaire in New York or Chicago has to have some trust company with a capital of ten million dollars to handle his estate after he is dead and gone. Both men have an equal right to have a corporation instead of an individual trustee. The one institution is just as capable of performing its duty within its limited sphere as the other, and it is the duty of the government to see that both perform their duty with equal fidelity.

Moreover, if the people who are residents of, or who

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live in the neighborhood of, all our smaller cities are to have the advantages of banks performing all the functions of modern banking, then each bank should have the privilege of performing these functions because there may not be business enough along any one line to justify separate organizations; and even if there were a sufficient business for each, great convenience, economy and efficiency would be effected by combining them all in a single banking institution.

The tendency, indeed the result, of such a policy will be to give increased strength and consequently greater stability to the banking situation throughout the country by reducing the number of banks and correspondingly doubling up the capital.

Having determined what the natural and economic functions of modern banking are and that each individual unit should be permitted to perform these four functions, it remains to describe and define that organization through which the several units of a "*Commercial Zone*" should be coordinated and unified into a banking republic which should, in turn, be united with all the other "*Commercial Zones*," thus forming a complete and perfect union of all our banking interests for the mutual advantage, strength and protection of all in the interest of the general welfare.

THE CLEARING HOUSE

The "*American Clearing House*," which is purely the product of experience, has grown up not only without any statutory direction or encouragement even, but, in a single respect at least, in actual defiance of law.

Our most highly developed Clearing Houses, such as exist in Chicago, New York and some twenty other cities, are the most complete, perfect and scientific expressions of organized banking that have ever existed in the world.

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If these Clearing House organizations, which are the rich product of untrammelled experience, should be extended to all the territory that is economically within the "*Commercial Zone*" of which the respective cities are the natural credit centers, all the banks of the United States must necessarily become component, active and efficient parts of the organic life of American banking and American commerce.

With such an organization, which would necessarily include all banks, every single bank in the United States would be conscious of the fact that it was inherently and economically an active part and an efficient and responsible factor in a truly "*American Banking System*."

We must keep constantly and vigilantly in mind that every step in the development of the "*American Clearing House*" has been taken as the result of experience,—vast and cumulative experience,—and that this is the justification for its existence, preservation and utilization, and alone can account for the fact of its perfection as a banking device. There are now more than two hundred and fifty of these institutions in the United States.

I would give more, a thousand times more, for the concentrated wisdom of fifty years of untrammelled experience expressed in the practises of the "American Clearing Houses" than for all the sublimated ignorance of Congressmen upon this great question during the same fifty years.

James C. Hallock, the leading authority on Clearing Houses, says: "In my humble judgment an earnest and enlightened study of the Clearing House would solve all the financial difficulties of the American people."

WHAT IS A CLEARING HOUSE FOR ?

The Clearing House is a means of simplifying and facilitating the daily exchange of claims against all the banks which are members of it, and of paying the bal-

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ances due them; and it is also a means of securing united action upon all the matters affecting their mutual welfare.

ORGANIZATION OF THE CLEARING HOUSE

The organization and operation of the most highly developed Clearing House is as follows:

First. The Clearing House has a committee who have charge of its operations.

Second. The Clearing House carries a reserve for the convenience, benefit and mutual protection of its members.

Upwards of \$200,000,000 is now being carried at the Clearing Houses of the United States for the convenience and protection of their members.

Third. The Clearing House, distrusting and tiring of all political examinations both State and National, has appointed its own examiners in over twenty of our leading cities.

In 1897, when I introduced my first general financial and banking bill, I urged that the banks should assume the examination of all banks if they ever hoped to have impartial, honest and efficient examinations.

Three distinct considerations had driven me to this conclusion: (a) The improper, unfair, dishonest and reprehensible influence that Senators and Congressmen exercised in preventing examiners, however honest and capable they might be, from protecting the interests of the depositors. I had discovered in many instances the bane, the curse, the injustice of the system of examinations then carried on because of political influence, and I felt it should be eradicated. (b) I had learned through an Englishman who was a manager of a British bank in Hong-Kong that there had not been a failure of a Chinese bank in that city for a time "whereof the memory of man runneth not to the contrary." Indeed,

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that such a thing was unthinkable simply because the Chinese bankers examined all the Chinese banks and prevented failures by underwriting and taking over any bank that would not conform to their rules. How strange and interesting this fact becomes in the light of what New York and Chicago bankers have done in recent years. (c) My investigation of the Canadian banking system had led to the discovery that no Canadian bank had ever failed because of anything that had occurred at any of its branches, but were always due to the misconduct of some one not subjected to the same severe and impartial examinations as the branches.

It was just nine years after I had first urged that the banks themselves should assume the examination of the banks that the first Clearing House Bank Examiner was appointed. The circumstances surrounding this appointment were well described by Mr. James B. Forgan, president of the First National Bank of Chicago, in these words:

"Chicago was the pioneer of Clearing House bank examinations. They were inaugurated there in 1906 after the failure of a National Bank and two State Banks. These institutions were under the direct management of one man who was president of the three. The condition of their affairs when disclosed surprised and appalled the other Chicago bankers. The liabilities of the private ventures of the president had gradually accumulated in the three banks until they had absorbed the entire capital and surplus of all three, amounting to \$3,500,000 and forty-four per cent of their aggregate deposits of \$27,000,000, one-third of which was public funds."

Following the immemorial practise of the Chinese bankers in Hong-Kong, the Chicago bankers underwrote these three banks.

As a result of a recent investigation of the character and efficiency of Clearing House examinations, the following letter from John W. Wilson, examiner of the Los Angeles Clearing House, is illustrative and illuminating

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because it sets forth so clearly and succinctly the advantages of Clearing House examinations.

"DEAR SIR: Replying to your inquiry of December 9th, will say that Clearing House examinations were begun in Los Angeles on May 1, 1908. Since the inauguration of the system there have been no bank failures, because the Executive Committee of the Clearing House Association will not permit banks to reach the danger-point.

"We have had one instance where, after watching a bank for three years, giving it a chance to correct its bad methods and put itself in good condition, the Clearing House finally compelled it to assign all of its assets to a trustee, and the public was notified that all claims would be paid on demand. . . .

"National and state examinations have improved greatly during the last ten years, but they will always lack the strongest element—the calm, clear judgment of the local executive committee, whose demands are founded on knowledge of the situation, and whose mind is not warped by political strings.

"Yours very truly,
(signed) JOHN W. WILSON,
Examiner, Los Angeles,
Clearing House Assn."

This is nothing more than the establishment at Los Angeles of the immemorial practices of the Chinese bankers of Hong-Kong, where, as I have noted, the bankers examine the banks.

I assert that the Clearing House examination is the greatest single banking reform of our American banking business, and that under no circumstances should we allow anything to take its place. It is absolutely essential to sound and safe banking in this country, and nothing but political madness and economic idiocy will substitute political examinations in place of them.

Fourth. In actual defiance of the statute imposing a tax of ten per cent upon any credit issued by a bank to circulate as currency, the Clearing House has issued

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many different forms of credit intended to do the work of cash.

According to the report of the comptroller of the currency, the total amount of all the extraordinary forms of credit intended to serve the purposes of cash during the panic of 1907 was \$248,297,700.

In May, and again in December, previous to the month of March, 1907, when the panic struck us, I had introduced a bill to meet the emergencies of the impending panic by providing for an issue of credit currency amounting to \$250,000,000, less than one million and three-quarters in excess of the amount of extraordinary forms of currency actually used. These extraordinary issues of credit took the form of Clearing House certificates up to \$100,000 each and Clearing House checks for one dollar, two dollars, five dollars, ten dollars, twenty dollars, fifty dollars and one hundred dollars each, and were issued in all parts of the United States from the Atlantic to the Pacific.

Of this panic a prominent banker said: "The truth is that responsibilities for the panic of 1907 lie at the door of our currency system. No other adequate cause can be found. We do business by the modern system of bank credit, but we have failed to supplement this machinery with the means for readily converting bank credits into cash."

This is absolutely right, and it only remains to add to it the principle laid down by Hamilton,—the interconvertibility of bank-book credits, bank-note credits and gold precisely as practised in Canada, Scotland, France, and as was successfully carried on in thirteen different States before the Civil War.

RULES ADOPTED BY CLEARING HOUSES

Clearing Houses have without any authority of law adopted the following rules for their guidance and control: (a) They have fixed charges for services; (b)

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they have provided reserves for their convenience; (c) they have forced all the banks which are members, and all those clearing through them, to submit to examinations; (d) they have not only issued Clearing House certificates for use in settling balances, but for circulation as currency in denominations of \$1, \$2, \$5, \$10, \$20, \$50, \$100 to meet the demands of trade.

Here, then, is the most marvelous machine known to the commercial world. It has come to its completeness by the sure process of evolution. Nothing is obviously wanting to make it more fit to meet the exacting demands of trade within its sphere, although, as a result of the interference of statutes, some of the methods it has been forced to adopt have crippled its facility and interfered with its efficiency.

This most highly developed Clearing House is a complete and perfect type of what the superstructure of a truly American banking system must be.

STRUCTURE AND POWERS OF THE CLEARING HOUSE

First. The Clearing House Committee or the Board of Managers.

Second. The examination of Member-banks or the supervision of banks.

Third. The deposit of funds for the convenience and mutual protection of Member-banks or the establishment of a united reserve.

Fourth. The issuance of Clearing House certificates and cashier's checks or the direct creation of credit currency by the individual banks.

Every business man and every banker should remember these two very important facts:

First. That every one of these four functions, of these four practices, is the rich fruitage of long experience and that they all exist, not only without the aid of law, but in a measure in actual defiance of law.

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Second. That all Anglo-Saxon civilization expressed in the terms of statutory law is the enactment of the practices and habits of the people.

THE SIMPLEST, MOST PERFECT, SOUNDEST AND STRONGEST BANKING SYSTEM IN THE WORLD

I assert that if we should extend this Clearing-House organization to all the banks naturally related to each economic center, thus creating forty-five or fifty Commercial Zones in the United States, and should then bind these Commercial Zones together by uniting all of their separate reserves into one common reserve for the mutual convenience and protection of all the banks of the country, we should have the simplest, the most natural, the most economical, the most efficient, the soundest and strongest banking system in the world.

A banking system created in this way would be purely the product of evolutionary changes growing out of adjustments suggested by our experience covering more than a century and a quarter, and therefore would be marvelously adapted to our peculiar conditions and particular needs.

Such a banking system would be the freest conceivable, consistent with soundness, and without comparison the most convenient and economical in the world. It would be the least troublesome and the least burdensome to the bankers, and at the same time the most advantageous and the least expensive to the people.

Such a banking system would be founded upon our own experience and would recognize only those practices that had been proved to be sound economically and most efficient in operation.

INCONTROVERTIBLE FACTS PROVED BY AMERICAN HISTORY

First. The most convenient, the cheapest, the soundest currency in the world is created by *making bank-*

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book credits, bank-note credits and gold interconvertible, a principle laid down by Alexander Hamilton and illustrated by the two United States banks, the State banks of Virginia, Louisiana, Kentucky, Ohio, Indiana, Iowa, Missouri and the banks of the six New England States all working together, and also as well today by the Bank of France, the eleven banks of Scotland, and the twenty-four banks of Canada.

Let me illustrate this fundamental truth, this all-important principle in a way that cannot help carrying conviction and driving every intelligent man to the conclusion that as matters stand today this country is being deprived of one of the greatest wealth-producing and coincidentally the most effective wealth-distributing forces ever employed by man.

Now, has it ever occurred to you in what the great, the incomparably greatest resources of our country consist? Certainly not in the mines, forests or fields which are rapidly being exhausted, but rather in the creative and productive powers of the people which are inexhaustible,—indeed, the more we attempt to exhaust the human resource by working it the richer and more inexhaustible it becomes.

Four mighty forces of governmental origin have contributed to the development of an individual citizenship on this continent that has no parallel anywhere in the world.

Two of these forces are social and two are economic.

The two social forces are:

First. The complete, the absolute separation of Church and State—or freedom of conscience.

Second. Our free Public School system, or the development of our mental resources.

The two economic forces are:

First. The Homestead Act,—the equitable distribution of the public domain,—and the consequent establishment of universal proprietorship in the people.

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Second. The individual, independent banking system or the proximity and propinquity of the borrower and the lender,—that is, living in the same locality and having like neighborhood associations and sympathies.

But the last of these forces has been robbed of a very large, if indeed not the major, part of its real virtue or true value to the people, because of the statutory limitations and restrictions of the natural law of credit.

In the light of history it is not too much to say that if the producers of wealth of all classes had had the privilege of exercising their natural right to exchange the credit to which their intelligence, character, capacity and industry entitled them, although unknown, for the credit of their bankers, whose credit was well known, with no further limitations or restrictions than the law of the interconvertibility of bank-book credits, bank-note credits and the established standard of value, the wealth of the United States would be vastly greater than it now is.

Furthermore, practically all such additional wealth would now be in the hands of the great mass of the people,—largely in the hands of the agricultural classes, because they have been deprived of the right to exercise this great and incalculable privilege.

The fact that the agriculturists have been the greatest losers, the greatest sufferers, is due to the circumstances surrounding them while they were settling and developing the vast domain of this great country. Anyone at all familiar with the conditions of a new settlement, especially in the distinctly agricultural regions, knows that there was nothing to make deposits with. There were no accumulations to loan out and there was absolutely no way, especially after 1865, for the new settler to exchange his credit for the credit of the local banker as he had done with absolute safety to the note-holders in all those States that were fortunate enough to have adopted the principle laid down by Hamilton. The

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result has been that the American people have been deprived of the use of hundreds upon hundreds of millions of credit. Again, the absence of this credit has compelled the pioneer banker to charge two or three or even ten times as much interest as he would have charged if this exchange of credit had been permitted.

That the American people have suffered an almost incalculable loss during the last fifty years, simply because they could not fully capitalize their human resources through these forms of credit, no intelligent thinker upon this question will deny. Of course, the people have been able to do this to some extent, but the loss expressed in the differential would be appalling if the figures could be even approximated.

The incontestable proof of this conclusion is found in these facts: (a) That Scotland, as MacLeod says, was lifted from ignorance, pauperism and barbarism by the "*Bank Credit Currency*" and cash credit system to the proud claim of having one of the most prosperous peoples in the world. (b) The "*Bank Credit Currency*" system and the French Banquier system, which is the counterpart of the cash credit system of Scotland, have made the French people, from the standpoint of the masses, the richest people in the world. The French Banquier system is a simple process by which the producers of consumable commodities make drafts upon the buyers of their products, and when they have been accepted, sell them in the open market. (c) Wherever the French Banquier system has made inroads upon other countries the result has been the same invariably. Belgium, Switzerland and Italy have all profited greatly by it. But no country has gained so much through it as Germany, where, within the last thirty years, it has made a most profound impression upon German industries, if you contrast their present condition with what they were prior to its adoption. (d) Identically the same principle is finding expression in two other channels—

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in Germany, most significantly, but in other countries as well. I refer to the Schulze-Delitzsch and Raiffeisen systems which have been breaking through the crust of traditions that grew up out of organized and legalized greed and are overcoming the barriers of credit monopoly, precisely as the free use of mutual and cooperative credit has always done. (e) A no less potential force of the same character has brought to the people of Great Britain most marvelous results through the great co-operative credit societies.

There is not the slightest difference in principle between the operation of the banks of Virginia, Louisiana, Kentucky, Ohio, Indiana, Iowa, Missouri and the six New England States before the Civil War and the Scotch banking system, the French banking system, the Schulze-Delitzsch and Raiffeisen systems of Germany and the great cooperative societies of Great Britain.

The only distinction is in the application of the principle. The only differentials that can be pointed out are all born of the conditions under which the principle has been applied. The Raiffeisen system so much lauded today is only the revival in Germany of the Scotch system of two hundred years ago. *Both are founded upon mutual aid to self-help through credit. Both are illustrations of the democracy of credit founded upon intelligence, character and industry.*

All of these various instances covering a period of more than two hundred years illustrate without the slightest variation the same principle,—banking upon credit, based upon the seemingly intangible asset of the human resource applied to the production of consumable commodities. And, just because the human resource is the chief, the only inexhaustible resource of any nation when applied to the production of the necessities of life, these various banking systems have proved to be the greatest, the most productive sources and the most effective and just distributors of wealth and at the

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same time the most efficient and sound financial agencies in the history of the world.

But the only guarantee that these or any other banking systems will remain sound is that all commercial credits are daily put to the test of redemption in the recognized and established standard of value,—the only touchstone of sound banking conditions. Today, the recognized and established standard of value is gold, and therefore current daily redemption of all credit must be in gold.

The one single banking principle, then, that is just to all the people, that is essentially democratic, that will call out the inventive genius of man, and develop all his powers, widen his vision, strengthen his character and approximate a just distribution of the products of his labor, is that of basing credit upon the human resources of the country when applied to the productive industries, and that credit being kept as good as the adopted standard of value by a constant redemption in it.

We have already seen that whether the Scotch banker in 1715 was exchanging his known credit for the credit of a poor Scotch boy who wanted to make shoes or rent a few acres of land for farming purposes, or whether the Bank of France in 1815 was exchanging its credit for that of the impoverished French peasant, or insignificant shopkeeper, or the Mutual Aid Association of Schulze-Delitzsch in 1915 is exchanging its combined credit for the credit of the poor urban artisan who has no capital save his honesty, skill and industry, but is groping to find the path to self-help; the principle is identically the same. Nor did the principle change when the first United States Bank began to exchange its credit for the credit of the struggling merchants and incipient manufacturers in 1791 when there was little or no deposit capital to use. Nor was any other principle invoked when the banks of Virginia exchanged their

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credit in the form of bank notes which passed current for the promissory notes of the farmers who were engaged in the production of tobacco and cotton in localities where there were no deposits made at all, or at least none worth mentioning. But what was done in Virginia, where there were no deposits worth speaking of, was also done in Louisiana, Kentucky, Ohio, Indiana, Iowa, Missouri and the six New England States.

Throughout all these States the achievements and results growing out of this natural use or employment of credit had precisely the same effect, wherever enjoyed, as the bank notes of Scotland had upon Scotland, which MacLeod likened to the fertilizing waters of the Nile.

Has this great people, the leading nation of the world, forgotten? has it lost, has it forfeited that incomparable wealth-producing, that incomparable wealth-distributing art?

Have not the farmers of Virginia, who are still producing cotton and tobacco, the same natural right today, and should they not have the same legal right to exchange their credit, expressed in the form of promissory notes due in three or four months for the "*Bank Credit Currency*" of the banks of Virginia due on demand that they had before the Civil War? Have not the farmers and legitimate producers of Louisiana, Kentucky, Ohio, Indiana, Iowa and Missouri the same natural right today, and should they not have the same legal right to exchange their credit in the form of their promissory notes due in three or four months for the "*Bank Credit Currency*" of the banks of their respective States that they had before the War?

Have not the manufacturers and fishermen of New England the same natural right today and should they not have the same legal right to exchange their credit expressed in promissory notes due in three or four months for the "*Bank Credit Currency*" of the banks of New England precisely as they did before the War?

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Is there a single banker in the United States, State or National, who, being placed under oath, would say that his cashier's checks (for that is just what "*Bank Credit Currency*" is), if made a first lien by statute upon all his bank's assets, would not be good? Nay, more; will any banker say that the checks of any cashier which are a first lien upon all the bank's assets would not be good?

But do I hear some voice in this audience, or the echo of some voice, whose master has departed, asking about that "Blue Pup," "Red Dog," "Yellow Dog," and all the other Doggone money we had before the War? Don't you know that practically every dollar of that Dog money, all that unsavory litter of pups, was bond-secured currency, —bank notes secured by State stocks, State bonds, railroad bonds, turnpike bonds, or something equally good or equally bad, as the case might be?

All that money was begotten of that will-o'-the-wisp, that phantom of phantoms, that insane delusion that you can make *money* out of a debt due on demand by securing it with another debt due a long way off, called a bond.

Let me tell you once and for all that the man has never been born who, even though he be king or emperor, can make money out of a debt. Nor has the legislative body ever yet been convened that even in the name and majesty of a great people can make money out of a debt. *Nor can either of them, nor both of them combined, make one dollar of money out of forty cents' worth of gold and sixty cents' worth of debt.*

ISSUANCE OF BANK CREDIT CURRENCY NOT DANGEROUS TO A BANK

Is there a single banker in the United States who thinks that it would be more dangerous to issue "*Bank*

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Credit Currency” than to take an equal amount of deposits? In the one case he exchanges the bank’s notes for the promissory notes of his customers; while in the other he gives to his customers credit on his books subject to check in exchange for their promissory notes.

Does not every banker know that if suspicion should attach to his bank the depositors would break his bank with their checks long before the note-holders could get there?

Cannot every banker see that if his bank should issue an amount of currency equal to its capital and that that currency was guaranteed by a fund of \$75,000,000 and was also a first lien upon all the bank’s assets, the tendency would be to convert deposits into currency rather than to draw them out?

BANK CREDIT CURRENCY IS ONLY A DEPOSIT

Certainly every banker can now see that the adoption of this principle would increase his deposits on the average to the amount of his capital. The paid-up capital of the Canadian banks is \$109,000,000. The total bank deposits of Canada approximate \$1,000,000,000. The “*Bank Credit Currency*” in circulation in Canada is approximately \$100,000,000 and, therefore, it may be assumed that the deposits in Canada are about \$100,000,000 larger than they would be if Canada did not have the advantage of a “*Bank Credit Currency*” system.

The bank capital of the United States is approximately \$2,000,000,000 and the total deposits approximate \$18,000,000,000. Therefore, it may be assumed that our deposits would be increased by at least \$1,500,000,000, or nearly ten per cent of our total deposits if we should adopt the “*Bank Credit Currency*” principle. But all experience shows that the average of the country banks would certainly equal their capital, while the cir-

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culuation of the banks in our great financial centers would fall a little short of the amount of their capital.

Are the bankers of this country willing to throw away the opportunity of increasing their deposits \$1,500,000,000? That is the pertinent question every man of them is up against. Let every banker ask himself what it would be worth to him to increase his deposits, on the average, to the amount of his capital. Let him inquire what he would save in trouble and expense and make in actual profits if he could only have the advantage of a "*Bank Credit Currency*" system.

Let every banker remember that the "*Bank Credit Currency*" of a country is always controlled precisely as checks and drafts are controlled, the amount never being too great, never too small, but always just equal to the demands of trade, and that the American Clearing House will always be the unerring talisman of the country's requirements.

BANK ACCEPTANCES

Although credit, as I have demonstrated, is the most potential, beneficent, facile, efficient and incomparably the most economical capital in the world, indeed the only wonder-working, miracle-working capital in the world when used in the employment of human resources devoted to the production of necessary consumable commodities, it may become the source of incalculable harm when lavishly and recklessly extended to the people during periods of rapid development, over-expansion and speculative ventures. It is during such times as these that accommodation-paper becomes a most dangerous and destructive force and the certain forerunner and cause of those most terrible commercial crises in the history of the world. Like fire and water, credit is the most beneficent of all servants, but the most terrible and cruel of all masters.

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ACCEPTANCE IS AS MUCH A LIABILITY AS A DEPOSIT

Herein lies the all too possible, yes, certain danger of acceptances, which, like bank credit subject to check and "*Bank Credit Currency*," should be protected by the same law of reserves. Such a law would always serve as a safeguard and salutary check. Indeed, this rule becomes more essential in this country than in any other in the world for four very specific reasons: (a) It would not limit the judicious use of the practice where it would be actually needed most in aid of our productive industries, as a rule limiting acceptances to the amount of the capital would. At the same time, the banker is constantly kept on guard by the necessity of carrying the reserve and treating his acceptances as liabilities. (b) There should be such protection given to acceptances in this country because there are now nearly thirty thousand individual, independent banks in the country indented with and limited to the environment of single cities whose interests the local bank will always espouse, whose enthusiasm, in periods of speculative prosperity, it will always share. (c) These thirty thousand banks are not now and in the very nature of things never can be managed by men who comprehend and appreciate the principles of banking economics in their true national bearing. (d) We must not forget that we are living in an age of marvelous developments and rapid changes in our business affairs and in a country, too, of vast undeveloped resources which are always calling loudly upon us and promising fabulous profits.

These are urgent reasons for the application of a few broad fundamental principles to American banking, and there are at the same time equally urgent reasons for a complete freedom from crippling restraints and a stifling and stagnating red-tape, strait-jacket policy that will do incalculably more harm than good.

Rules and regulations by the ream are apt to produce

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in unexpected ways the very evils they are intended to prevent. Again, it may be laid down as an historical fact that if two or three broad fundamental principles are established and followed, all your rules and regulations will prove worse than worthless. And if these same broad fundamental principles are not established and obeyed, all the rules and regulations in Christendom will not save us from final overwhelming disaster.

Second. The great incontrovertible fact is that for the convenience, advantage and profit of the American people we should adopt a "*Bank Credit Currency*" system, the United States government furnishing all the notes for the purpose of securing a uniform currency, and that all this currency should be receivable at the counters of all National banks precisely as our National bank notes are for the purpose of giving them a universal value everywhere throughout the United States; *but they should go to the Clearing Houses daily for redemption precisely as all other bank debts do.*

Third. The third incontrovertible fact is that every Clearing House that is located at the natural credit center of every "*Commercial Zone*" in the United States should be incorporated and extended to all the banks within the respective "*Commercial Zones*," thus coordinating and unifying all the banks of each zone into a harmonious system for the purpose of supervision, the rapid redemption of all bank debts and the protection of every bank in the several zones, precisely as the Member banks of our most highly organized Clearing Houses are supervised and protected today.

COOPERATION IMPLIES MUTUAL OBLIGATIONS

But the privileges and incomparable advantages growing out of a cooperative union of all the banks in a "Commercial Zone" for such mutual convenience, advantages and

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protection must necessarily imply common obligations with respect to capital and reserves.

WHAT IS THE CAPITAL OF A BANK FOR?

The primary object of bank capital is to carry on successfully the business and therefore it should always be sufficient to accomplish this purpose.

The secondary object of bank capital is to protect those who may do business with the bank,—a guarantee against loss. This fact is accentuated by the double liability imposed upon the owners of bank stock. The effect of ample capital and the double liability clause is to give confidence and secure deposits from the people,—the public.

BANKS ARE QUASI-PUBLIC INSTITUTIONS

That the banking business is a quasi-public business and is so regarded both by the National and by the State governments is conclusively proved by the fact that both the National and State governments require a double liability upon the bank stock and assume the supervision of the business in the interest of the people, the public, prescribing precisely how both the capital and deposits shall be invested.

Experience has shown that, on the average, deposits should not exceed the capital more than five times, especially where the banks stand isolated and are in the last analysis dependent upon their own resources for protection in times of extreme pressure. Undoubtedly, if all the banks of a "Commercial Zone" were united as outlined, they could carry on their business with greater safety to their depositors, even though the deposits should be ten times the capital, provided that the cash

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reserves and their united reserves combined were ample to meet the exigencies of all ordinary times, including panics and those crises which grow out of overtrading and periodic speculation.

Every financial and banking system should be equal to such emergencies; but no financial and banking system could be equal to some situations that might possibly arise, such as the present European difficulty, without resorting to some extraordinary remedies.

All the banks, therefore, of a zone which unite for their mutual convenience and common protection should be willing, and should be compelled to provide the same amount of capital relatively. That is, deposits should not exceed the capital beyond a prescribed limit.

In other words every member of a cooperative association of all the banks should work within the same margin of capital insurance; for the capital is an insurance fund for the protection of the depositors of the bank against *ultimate* loss, and the prescribed margin should not be exceeded.

WHAT ARE THE RESERVES OF A BANK FOR ?

A reserve is something held back to meet an emergency. Bank reserves are held for the purpose of enabling a bank to meet the demands of its depositors under any and all circumstances outside of war conditions.

It follows, therefore, that ample reserves must actually exist in some form at all times. But all of a bank's reserves need not necessarily be in its own vault all of the time.

Bank reserves may be in three forms:

First. Reserve money (gold) on hand.

Second. Reserve money in a united reserve of all the banks of a "*Commercial Zone*" or of all the banks of the United States combined.

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Third. Such a class or character of assets and such facilities as will enable a bank to convert those assets into reserve money or gold immediately to meet any emergency if necessary.

But the theory that bank reserves may be a mere myth or consist of wind, water or debts only is the most misleading and dangerous fallacy that can possibly be entertained.

Walter Bagehot, the great banking economist, said:

"I have tediously insisted that the natural system of banking is that of many banks keeping their own cash reserves, with the penalty before them if they neglect it."

In another place he says:

"Of course, in such a matter the cardinal rule to be observed is that errors of excess are innocuous, but errors of deficit are destructive. Too much reserves only means a small loss of profit, but too small a reserve may mean ruin. Credit may be at once shaken, and if some terrifying accident happens to supervene, there may be a run on the banking department that may be too much for it, as in 1857 and 1866, and may make it unable to pay its way without assistance, as it was in those years."

And again he writes:

"Why should a bank keep any reserve? Because it may be called upon to pay certain liabilities at once and in a moment."

Another great English economist, W. Stanley Jevons, says:

"There is a tendency to frequent severe scarcities of loanable capital, causing sudden variations of the rate of interest, almost unknown thirty years ago. I will therefore in the next chapter offer a few remarks intended to show that this is an evil naturally resulting from the excessive economy of the precious metal which the increasing perfection of our banking system allows to be practised, but which may be carried too far, and lead to extreme disaster."

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Again he says:

"The vast trade of the country cannot be placed upon a sound basis until the force of public opinion among bankers imposes upon each member the necessity of holding a cash reserve, bearing a fair proportion to the liabilities incurred. It matters little who holds the reserve, provided it actually does exist in the form of *metal*, and is not evaporated away, by being placed at par, or deposited with other banks which make *free use of it*. In the absence of some common action among bankers it is certain that the sensitiveness of the money market will increase, and it is probable that commercial crises will from time to time recur, even exceeding in their violence and disastrous consequences those whose history we know too well."

No one who has been a student of this great question during the last twenty-five years and has carefully watched the situation here and abroad; who has read and read again and again the ever-repeated warnings of the Bank of England and the leading bankers of London, and the repeated urgent, insistent demands of Herr Havenstein, President of the Imperial Bank of Germany, calling upon the bankers of these two great countries to carry a cash reserve of at least ten per cent in addition to that carried at their central institutions, could fail to be most deeply impressed and compelled to conclude that our banks should carry, in addition to a specified central reserve, an actual cash reserve ranging from six to ten per cent according to the circumstances surrounding their business.

In other words the *actual cash reserves* held in the United States should range from fifteen to twenty per cent under the most favorable circumstances, for in the long run nothing will be gained, but much lost, by weakening our bank reserves to the danger-point; more especially so if they are composed of government debts,—United States notes,—and silver, neither of which are fit for reserves because they are only demands for gold.

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HOW TO INCREASE YOUR BANK RESERVES IF NECESSARY

If a bank is carrying only ten-per-cent reserve today it should be compelled to increase its reserves under the most favorable circumstances to at least fifteen per cent or by five per cent.

Under a proper currency system this could be done by the bank simply holding the gold or gold certificates it receives from day to day to the extent of five dollars for every hundred dollars of its deposits, and issuing its own notes for a corresponding amount.

The result would be that the bank would increase its liabilities only five per cent, but would increase its reserves fifty per cent and at a cost to itself of only thirty cents annually to every one hundred dollars of deposits, or six per cent upon a reserve of five dollars held against the one hundred dollars of currency put out,—three dollars on one thousand.

But considering the increased strength of the bank because of the additional reserves, and the fact that you can secure an additional deposit equal to your capital by issuing currency to the amount of your capital, the extra cost of the increase in your reserve would be very small indeed. On the average the gain to the bank would be about three thousand dollars at an additional cost of only ninety dollars.

IMPORTANCE OF A UNITED NATIONAL RESERVE

Conclusively as it has been proved by experience that every Clearing House which is located in the economic center of a "Commercial Zone" should have a united reserve for the convenience and mutual protection of all the member banks of that zone, it is even more essential that there should be a United National Reserve for the convenience and protection of all the economic

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centers; for the banking business is distinctly a national business and every bank in the United States is a unit, helpful or dangerous, in the organic life of our interstate commerce,—the most important part of which is our banking business.

THE DUTY OF EVERY BANK

It is highly important, then, that the reserves of every bank should bear a direct relation to its liabilities and be adequate to meet its responsibilities. This is essential because if part of the banks fail to provide their proper proportion of the reserves and as a result are compelled to resort to the reserves of others, the banking situation is correspondingly weakened and a business disturbance is threatened, if indeed a panic is not precipitated and the disastrous consequences of a crisis suffered.

Every bank, then, should be willing to furnish its due proportion of that United National Reserve, which will enable it to meet any emergency that may arise in the business affairs of the whole country. Indeed, every bank should be compelled to contribute its due proportion of the country's reserves as a matter of common protection to the whole country.

BANKING IS INTERSTATE COMMERCE

Article three, section eight, of the Constitution empowers Congress "to regulate commerce with foreign nations and among the several States and with Indian Tribes."

Upon this clause of the Constitution rests the Anti-Trust Law. What have we not done under this clause of the Constitution and "the general welfare" clause?

We have passed the Food and Drugs Act, giving the

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government power to stop the use of poisonous substances in food products and drugs:

The Insecticide Act, giving the government power to determine what kind of poison shall be used to annihilate bugs:

The Plant Quarantine Act, giving the government power to regulate the importation of nursery stock and other plants and products and to enable the Secretary of Agriculture to establish and maintain Quarantine Districts for plant diseases and insect pests:

The Live Stock Quarantine Act, to enable the Secretary of Agriculture to suppress effectually and extirpate contagious pleuro-pneumonia, foot and mouth diseases and other dangerous infectious and communicable diseases in cattle and other live stock:

The Meat Inspection Act, whereby, for the purpose of preventing the use in interstate or foreign commerce, of meat and food products which are unsound, unhealthy, unwholesome, or otherwise unfit for human food, the Secretary of Agriculture at his discretion may cause to be made, by inspectors appointed for that purpose, an examination and inspection of all cattle, sheep, swine and goats before they shall be allowed to enter into any slaughtering, packing, meat-canning, rendering or similar establishments in which they are to be slaughtered, and where the meat and meat-food products thereof are to be used in interstate or foreign commerce.

The Twenty-eight Hour Law by which the government compels the humane treatment of cattle:

Employers' Liability Act:

The Safety Appliance Act:

The Hours of Service Act:

The Transportation of Explosives Act:

The Newspaper Publication Act:

The White Slave Act.

Can anybody doubt that we shall have a National Health Act by which the government can stop the

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invasion of this country by yellow fever, cholera, bubonic plague or any other scourge that may possibly visit our shores and sweep over the land?

Can anybody doubt that we shall soon have a National Child Employment Act by which the childhood and youth of the land may be protected against those labor practices that imperil our chief national resource, the human resource?

Can anyone doubt that we shall soon have a National Women's Employment Act so that future generations may not be pauperized in health, strength and character?

Can anyone doubt that we shall soon have a National Workmen's Employment Act to the end that American citizens in all parts of the United States engaged in our productive industries shall have equal opportunities in matters of hours of labor?

The general welfare of this nation demands strength, power and greatness; but the strength, power and greatness of this nation reside and consist in the character, health, strength and power of the people, and therefore conservation of our great national resource is the conservation of our human resource. The citizen is a national asset.

Can anyone doubt that justice between the employers of labor in our various States and the general welfare of this Republic demand uniform health and labor laws to the end that the citizenship of this Republic may be the best product of the human race?

Certainly if all these things are done, can be done and ought to be done by the National government, can anyone doubt the soundness of this proposition: That it is interstate commerce to ship by mail, or freight, any kind of property from one State to another?

What is property? Property is a thing or things subject to ownership; anything that may be exclusively possessed and enjoyed; chattels, lands, possessions. Gold, gold certificates, silver, silver certificates, United

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States notes, checks, drafts, promissory notes, are all certainly within this definition.

The Century Dictionary defines commerce as "Interchange of goods, merchandise or property of any kind; trade; traffic." It says: "Interstate Commerce specifically in the United States, is *Commercial transactions and intercourse between persons resident in different States of the Union* or carried on by lines of transport extending into more than one State. Its synonyms are,—*business communication, communion, intercourse.*"

H. D. MacLeod, the ablest and highest authority I know on banking economics, says:

"*Property* therefore in its true sense means solely a *right interest* or *ownership*, and consequently to call goods or material things property is as great an absurdity as to call them *right interest* or *ownership*."

"To call goods themselves property is, comparatively speaking, a modern corruption and we cannot say when it began."

Therefore I assert that property as defined by MacLeod is primarily and essentially the very thing with which banking is solely concerned.

In confirmation of this same view I invoke the Century Dictionary's definition already quoted when it says: "Commerce is the interchange of goods, merchandise or *property of any kind*," necessarily meaning "solely a right interest or ownership."

Will anyone deny that gold is property? Remember that when gold is shipped in large quantities it is by weight and not by count.

Will anyone deny that gold certificates are property?

Will anyone deny that silver is property?

Will anyone deny that silver certificates are property?

Will anyone deny that United States notes are property?

Will anyone deny that promissory notes are property?

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Can anybody have the hardihood to say that if a note-broker in New York ships a million dollars' worth of commercial paper to purchasers in the West upon a commission of a quarter or a half per cent, and receives his payment, for the sake of the argument, let us say, by a shipment of gold coin, such broker is not engaged in interstate commerce? Does this transaction become a different transaction, forsooth, because it is carried out by a banker?

Will anybody deny that checks and drafts and bills of exchange are property?

Will anybody deny that a bank has property, although it may be the owner of one million dollars' worth of promissory notes?

Will anybody declare that a bank has no property when it has a million dollars' worth of gold coin in its vaults?

If a bank in Chicago should by any chance own one million dollars' worth of wheat, and should sell and ship the same to a New York bank, and the New York bank should ship the Chicago bank one million dollars' worth of gold, will anybody deny that they are engaged in interstate commerce? Now suppose that the Chicago bank, instead of shipping it, should sell the wheat in Chicago to Mr. Armour for his promissory note for one million dollars, due in thirty days, and that the Chicago bank should then sell, and mail the note to the same New York bank, and the New York bank should ship the Chicago bank one million dollars in gold, in payment for the note, will anyone have the hardihood to assert that this transaction is not interstate commerce?

Will anyone deny that the sale and shipment by note-brokers of billions upon billions of promissory notes from one State to another every year is not interstate commerce, but that to ship eggs, apples, potatoes, chickens, grain, cotton and live stock is interstate commerce?

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I assert that it is just as proper and important that the National government inspect this paper, and the banks that create it or ship it or buy it, as it is to inspect the sheep, hogs, cattle, slaughter-houses and the meat they turn out in order that it can protect the people of the United States. If the paper so shipped is infected by the hand of a rotten maker, commercially speaking, and the bank sending it out and responsible for it is not carrying an adequate reserve to meet the paper, should the maker fail to pay it, the harm done is vastly greater than that resulting from slightly infected meat. How much infected meat would it take to do the harm, the damage to the American people that resulted from the panic of 1907? And yet, if we had had a wise, national financial and banking system we need never have passed through the harrowing, wasting panic that resulted in destroying property values into the billions; in the death of thousands of the people directly and indirectly; in the ruined health of tens of thousands more; in the non-employment of hundreds of thousands; and in the unknown and immeasurable suffering that ensued.

Such a national system must be supported by every banking unit; by every individual bank carrying its part of the commercial burden, and providing its proper share of the insurance of commercial safety by contributing its proper proportion of the necessary reserves, both local and national.

OTHER INSTANCES OF INTERSTATE COMMERCE IN THE BANKING BUSINESS

If some water or gas company located at Columbus, Ohio, should file a mortgage there to secure an issue of bonds and then express the mortgage to some trust company in New York City for the purpose of having it act as a trustee for the bondholders, and such trust company

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should proceed to do so and in pursuance of its duties should ship out the certified bonds, should receive remittances to cover the interest on the bonds and disburse the same, will anyone deny that such a trust company is engaged in interstate commerce?

Again, if a trolley-line running across the States of Ohio and Indiana should use the same trust company for the same purpose, will anyone deny that the trust company is engaged in interstate commerce?

Again, if a trust company should accept the execution and care of a personal estate that involved the shipment of money or what is the same thing, *checks or drafts, which are property* to every State in the Union, will anyone deny that it is engaged in interstate commerce,—“that is shipping property from one State to another”?

If it is admitted, and it must be, that these acts constitute interstate commerce, then the National government, under the Constitution has the right and power to control these instrumentalities of interstate commerce.

But the power to control these instrumentalities must be sufficient to define the powers of the instrumentalities.

It follows, therefore, that if the National government should give National banks the power to execute trusts in accordance with the laws of the respective States where located, there could be no more conflict with the laws affecting or controlling estates than there is with the law-merchant of the respective States where National banks are doing business today, such as usury laws and laws affecting commercial paper and mechanics' liens.

Any bank, State or National, that receives money, commercial paper, checks, drafts or any other form of property from any point outside of the State in which it is located, is engaged in interstate commerce.

Any bank, State or National, that sends money, commercial paper, checks, drafts or any other property from

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the State where it is located to any point outside of the State in which it is located, is engaged in interstate commerce. In both of these cases the National government has the power to control this business by prescribing the rules for its conduct.

GENERAL WELFARE CLAUSE

It will be remembered that when the law was passed authorizing postal savings banks, this clause, which was supposed at the time to have been drawn by President Taft, was inserted:

"Sixty-five per cent of the deposits could remain with the banks as a working balance, and also a fund which may be withdrawn for investment in bonds or other securities of the United States; but only by direction of the President and only when in his judgment the general welfare and the interests of the United States require."

Similar language could be used with regard to the prescribed reserves as a justification for creating them.

POWER OF TAXATION

It will be remembered that when Secretary Chase sought to compel all banks desiring to issue bank notes to purchase United States bonds as a basis for them, he secured the passage of an act imposing a tax of ten per cent upon all bank notes issued by State banks.

Taking deposits subject to check and issuing bank notes are, as we have seen, absolutely identical in principle; and, barring the law above referred to, the one is as lawful as the other; and both are equally lawful today so far as the National bank is concerned if the bank will only pay the tax of ten per cent on the bank notes.

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I assert that if it is lawful for the government to impose a tax of ten per cent upon bank notes issued by State banks, it would be lawful to impose a tax of ten per cent upon all deposits not covered by a specified reserve. I assert further that it is the duty of the National government to compel all banks to carry their proper part of that *commercial insurance* which is essential to sound banking, and that the National government is negligent in its duty to the American people as a whole to permit knowingly one-half of the bankers to prey upon the other half, to the great injury of the common good,—to the peril of all business prosperity,—by carrying only one-half of the necessary reserves.

If the government could fix the conditions upon which State banks could issue bank notes, it can fix and should fix conditions upon which State banks could take deposits, and those conditions should be identical with the conditions upon which National banks take deposits.

Furthermore, those conditions should be such as to both capital and reserves as will accomplish two specific results:

First. The financial and banking system of the United States should be made such as to be an absolute guarantee of the highest business efficiency and of our commercial soundness and our international supremacy, for these are essential to the general welfare of the whole country.

Second. Every bank in the United States should be compelled to furnish its due proportion of the bank capital and to carry such reserves as are essential to the guarantee of our business efficiency, commercial soundness and international supremacy. And every honest, fair-minded, square-dealing patriotic banker will admit this to be his duty and will acquiesce in his responsibility without a protest. Not only that, but he will join hands in compelling all other bankers to bear their proper

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burden for the common good and the promotion of the general welfare of the whole country.

THREE ADEQUATE POWERS

First. I assert that banking is interstate commerce and therefore the National government has the power to impose such conditions as will produce these all-important results.

Second. I assert that the National government has the power under the "General Welfare Clause," and therefore that it is its duty to impose such conditions as will produce these all-important results.

Third. I assert that the National government can, through its taxing power, and therefore should, impose such conditions as will produce these all-important results.

THE CREATION OF A UNITED RESERVE BANK

If, as I have just pointed out, our unbroken prosperity, our commercial soundness and our international supremacy all depend upon a *United Reserve Bank*, it is the duty of the National government to find some way of establishing it. And if the National government has the power to require the banks to create such a *United Reserve Bank*, through cooperation, it remains to suggest how it should be created and managed to conserve and promote best the general welfare of the whole country.

Our forefathers, Washington, Hamilton, Franklin, Jefferson, Adams, Madison, Monroe and all that great coterie of men found after we had secured our political independence in 1783 that the government was so weak that it was necessary to form a more perfect Union,—the United States government under the Constitution

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of 1789. In the banking world we are today in precisely the same position that they found themselves in politically, and we are now called upon to form a *more perfect Union* in a *United Reserve Bank* in which all the "*Commercial Zones*" will be bound together for the common economic cause,—for the protection of all, precisely as the States were bound together for a common *political* cause,—for the protection of all.

THE COMMERCIAL ZONE

It will be remembered that a "*Commercial Zone*" consists of the natural credit center of a section of the country at which all the banks prefer to transact their daily business,—that is clear their checks, drafts and credit currency there. But all such banks should be at liberty to send checks and drafts wherever their business interests require they should go.

If, as has been suggested, the "Clearing House" organization of these credit centers should now be extended to all the banks in the territory that is economically or commercially tributary to these centers, then every individual bank would have all the advantages and protection of a branch of a great central bank as strong as all the banks of the whole "*Commercial Zone*" combined; yet in the conduct of its business, within the rules to which it voluntarily subscribes, it would be as free and independent as though the organization had never been affected,—just as free and independent as the members of a Clearing House are today.

THE RESULTS OF THE ORGANIZATION OF THE COMMERCIAL ZONE

It must now have become perfectly obvious that not a single bank could afford to remain outside of the

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membership of its "*Commercial Zone*." For it will be recalled:—

First. That all National Banks will be empowered to perform the four functions of Modern Banking, Commercial Banking, Savings Banking, Trust Banking and "*Bank Credit Currency*" Banking.

Second. That every bank, National or State, will be compelled to work within the same capital insurance limit and to carry its proper share of the National Reserve which is essential to guarantee commercial soundness and international supremacy.

Third. All bank examinations, State, National, Clearing House and Federal Reserve, will be superseded by the "*Commercial Zone*" examination, which will be uniform throughout the United States, thereby saving at least fifty per cent of our present expense and securing a supervision that will be tenfold more efficient than our present hodge-podge method. It will be as efficient and as just as human ingenuity can possibly make it,—bank examinations of banks by the banks themselves under government supervision.

Fourth. Our Clearing House system will be uniform, harmonious and universal throughout the United States, thereby eliminating all our State and sectional controversies, as well as those organizations that have come into existence as a protest against the intrusion and encroachments of that organization which is wholly foreign and inimical to our institutions,—the Federal Reserve Bank scheme.

Fifth. The bureaus of information with regard to all commercial credits in the respective zones will be so complete as a result of the zone examinations as to make it possible to learn within twenty-four hours what accommodation the banks of the whole United States have extended to any business house or corporation. A repetition of the Booth Fish Collapse, the Washburn Mills episode and the Clafin experience could and would be

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made a thing of the past,—an end all bankers will say is very much to be desired.

Such information as would always be available through these bureaus is absolutely essential in a country so extensive as this if we would successfully protect ourselves against the abuse of acceptances and demonstrate that they are in the long run more of a blessing than a curse,—because an acceptance should always be confined to some actual transaction connected with commercial commodities and be performed within a limited and reasonable time.

Sixth. Precisely as they have developed a free credit zone covering sixty thousand square miles around London, and as they developed throughout New England before the War, a free credit zone covering sixty-six thousand square miles and have within the last fifteen years reestablished a like free credit zone covering the same territory, so we should have forty-five or fifty free credit zones throughout the United States, all working in such harmony and unison as to bring about a daily settlement of balances between all these credit centers every afternoon by telegraph, telephone or wireless until the whole United States became approximately a free credit zone.

Seventh. *One of the most salutary influences and expediting forces to achieve rapid clearances would be the "Bank Credit Currency," as every bank credit note would bear in bold figures two numbers, one indicating the zone to which it belonged, the other the bank that issued it; so that whenever it came into the possession of a bank it would go home with the directness and celerity of a check, because every bank would want to keep its own notes out, and to do this must send all others home for redemption in gold, which it could use as a reserve or the basis of additional credit.*

But however complete and perfect in all its purposes and parts the individual "Commercial Zone" might be,

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standing alone, it would be in identically the same position that the original thirteen States found themselves prior to the adoption of our present Constitution. Their obvious weakness led to the formation of a more perfect union in which each State became as strong as all combined.

COORDINATION AND UNIFICATION OF ALL COMMERCIAL ZONES INTO THE UNITED RESERVE BANK

The combination or union of all the reserves of all the *Commercial Zones* would create at Washington a central reserve of gold aggregating approximately \$1,250,000,000.

While this great Central Reserve would theoretically be located at Washington, it would be carried, to the extent of business requirements, at the Credit or Zone Centers for the purpose of facilitating the business exchanges of the whole country.

COURT OF FINANCE OF THE UNITED STATES

This great central gold fund should be under the control and direction of a thoroughly representative body of men as far removed from the influence of political strife as any human device could possibly place it. It should be equally representative of business men and bankers. It should be under no obligation to any political, special or local interest, if this end could possibly be attained.

To meet all these high demands in the largest possible degree I believe that the members of the Court of Finance should be appointed for life by the President, subject to the approval and confirmation of the United States Senate precisely as the judges of the United States Supreme Court are.



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The Court of Finance should consist of twenty members and the Secretary of the Treasury.

Eight members, four business men and four bankers, should be appointed from the Atlantic Coast Region, the western boundary being the cities of Buffalo, Pittsburgh, Atlanta and Jacksonville.

Eight members, four business men and four bankers, should be appointed from the Mississippi Valley Region, the western boundary being the western boundary-line of the States of the Dakotas, Nebraska, Kansas, Oklahoma and Texas.

Four members, two business men and two bankers, should be appointed from the remaining portion of the United States or the Pacific Coast Region.

They should be retired at the age of seventy unless requested to remain by a vote of at least two-thirds of the board of trustees.

They should elect their own officers.

They should appoint a representative of the government upon each Clearing House Committee whose duty it should be to protect the interests of the public and keep the Court of Finance of the United Reserve Bank fully informed from day to day upon all local questions and conditions affecting the financial situation and general welfare.

All authority that the Secretary of the Treasury now has over the banks of the country should be abolished.

The office of the Comptroller of the Currency should be abolished.

Such an organization would give us forty-five or fifty absolutely independent republics of absolutely independent banks with the opportunity always open for natural development, growth and adjustment to the varied conditions of the different sections of the country and the new situations as they arise from time to time in the evolution of trade and commerce, and yet, while as far removed and as free from all political influence as it could possibly be made, they would always be under

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the ever-watchful eye and supervising control of the people through their government representatives.

INCOME OF THE UNITED RESERVE BANK

In the course of a very short time the amount of "*Bank Credit Currency*" in circulation in the United States would be \$1,500,000,000, upon which the annual tax of two per cent would return to the United States Treasury \$30,000,000.

USE MADE OF THE INCOME OF THE UNITED RESERVE BANK

The Board of Trustees should receive salaries in keeping with the importance of the position and commensurate with the class of men who ought to be appointed. Certainly no one would think that \$10,000 a year was a large salary considering all the circumstances. Such a salary would require an outlay of \$200,000 per annum.

The representatives of the government sitting on the Clearing House Committee would probably receive salaries ranging from \$3,000 to \$9,000 per annum, according to the location of the credit center, or an average of \$6,000 per year, or a total of..... \$300,000

The government outgo then would be as follows:

Salaries of Trustees.....	200,000
Salaries of Clearing House representatives	300,000
One per cent per annum upon the \$730,- 000,000 of United States two-per-cent bonds	7,300,000
One per cent per annum for five years upon the total amount of " <i>Bank Credit Cur- rency</i> " of \$1,500,000,000 for a Guarantee Fund.....	15,000,000
Making a total of.....	\$22,800,000

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The balance remaining of \$7,200,000 should be paid into the Gold Reserve now behind the United States notes or greenbacks until the amount so paid in shall, with the \$150,000,000 now there, be equal to the United States notes or greenbacks now outstanding, or \$346,681,000.

When this is accomplished all the United States notes or greenbacks will be converted into *gold certificates* and the government relieved from the burden of all demand obligations, and our bank reserves from the stigma and danger growing out of this economic false pretense.

This all-important end in our national affairs would be accomplished in fifteen years, or by 1930, the year our two-per-cent bonds mature. Thereafter the United States Treasury would annually derive a net revenue from the tax on our "*Bank Credit Currency*" of approximately thirty cents per capita for our entire population of more than one hundred million people or upward of thirty million dollars.

A PERFECT MONETARY SYSTEM

The result of this achievement would be to give us a perfect monetary system composed of the following elements:

- (a) Gold or gold certificates for all bank reserves.
- (b) "*Bank Credit Currency*" for all currency purposes, in five-dollar denominations and upward.
- (c) Silver and silver certificates for all our subsidiary currency under five-dollar denominations.

WHAT OUR MONETARY SYSTEM CONSISTS OF TODAY

Gold or gold certificates	\$1,993,549,015
Silver or silver certificates	568,272,478
Subsidiary silver	185,331,865
United States notes	346,681,016
Federal Reserve notes	84,260,500
National bank notes	819,273,591
Total	<hr/> \$3,997,368,465

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OF WHAT OUR MONETARY SYSTEM SHOULD CONSIST TODAY APPROXIMATELY

Gold and gold certificates	\$2,500,000,000
Bank credit currency	1,500,000,000
All forms of silver	753,604,293
<hr/>	
Total	\$4,753,604,293

Gold should take the place of \$200,000,000 of United States notes or greenbacks not now covered by gold.

The total amount of our bank reserves, including the reserves for \$1,500,000,000 of "*Bank Credit Currency*," should be increased by at least \$500,000,000.

OUR OPPORTUNITY

We should not fail to take advantage of the opportunity that has come to us through the European War to put our financial house in perfect order, for it can now be done without a struggle and without a disturbance of foreign business conditions. To throw away this opportunity is to commit National Economic Suicide.

DISPOSITION OF GOVERNMENT REVENUES

All government revenues should be deposited currently as received with the *United Reserve Bank*, and the accounts of the government paid by voucher precisely as they are paid by all other Governments, States, Cities and Municipalities.

These vast accumulations should no longer be left in the hands of the Secretary of the Treasury, who may be the efficient tool of the party in power to reward henchmen, buy new friends, blackmail the timid and

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shut the mouths of the whole banking fraternity, preventing them from frankly expressing their honest opinions, through fear lest they fail to get any government deposits or lose those they already have. The present practise is intolerable and unspeakable and the fit instrument of a government founded upon favoritism and tyranny.

PROFITS OF THE UNITED RESERVE BANK

All profits made through loans or investments by the "*United Reserve Bank*," after allowing for such accumulations as the Court of Finance deem advisable, should be distributed among the depositors precisely as though they were stockholders,—that is the United States government and all the banks which are members of the respective "*Commercial Zones*."

REVIEW OF THE PRINCIPLES FOLLOWED, METHODS USED AND ENDS ATTAINED IN THE ORGANIZATION OF THE UNITED RESERVE BANK

Throughout there has been a steadfast recognition of, and the strictest obedience to, the principles of banking economics.

The lessons taught by the experience of the world have been the unvarying guide in every step taken, and only when banking practices have been proved over and over again and verified under every conceivable condition have they been approved, adopted and incorporated.

The following are the inferences to be drawn and inevitable conclusions to be reached from the experience of the banking world and the approved and established practices of banking during the last two hundred years wherever either obvious error or necessitous conditions

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have not interfered through legislative enactments with the progress, development and perfect evolution of bank practices in accordance with the universally acknowledged principles of banking economics.

First. Nothing is recognized as money, except what is coined out of our standard of value,—gold.

Second. That form of currency which is the most natural, the most economical, the most efficient, the most advantageous to the producers of wealth, the most convenient to the bankers and that which experience has demonstrated to be the most nearly ideal of all forms of currency for all denominations from five dollars up is adopted,—“*Bank Credit Currency*.”

Third. The field of our subsidiary coin from two dollars down is covered by the same metal as is now used for that purpose by all civilized nations,—our accumulated silver.

Fourth. Our monetary system, which would consist of gold for all reserves, “*Bank Credit Currency*” for our cash medium of exchange, and silver for all subsidiary purposes, could not be subject to any possible criticism whatever,—it would be a perfect monetary system.

Fifth. Every individual bank would become essentially an economic unit in the organic life of our commerce with opportunities and responsibilities coordinated, for the advantages of cooperation would be so great that no bank could possibly afford to remain outside of a zone organization.

Sixth. Every individual bank would be protected.

(a) By the most intelligent, practical and efficient supervision that can be humanly devised,—bank examinations by the banks. (b) The power to create cash, if necessary to double the amount of its capital by issuing “*Bank Credit Currency*.” (c) The association of all the banks in the “*Commercial Zone*” where it is located for mutual convenience and protection. (d) A guarantee fund of \$75,000,000 to insure its “*Bank Credit Currency*.”

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(e) The resort of its "*Commercial Zone*" to the *United Reserve Bank*,—the greatest central reserve of gold in the world.

Seventh. Every "*Commercial Zone*," while protected by the strength of all the "*Commercial Zones*" combined, in the *United Reserve Bank*, would remain an absolutely independent republic of absolutely independent banks,—a complete local self-government subject only to the supervision of the Court of Finance of the *United Reserve Bank*.

Eighth. Every "*Commercial Zone*" would furnish to the people a free check system within its own boundaries, while the credit centers of the *Commercial Zones* would gradually adjust their balances every afternoon by telegraph, telephone or wireless communication. To a large extent, if not entirely, checks and drafts would be par everywhere throughout the United States.

Ninth. The possible increase of the deposits of the producers of wealth, the deposits of the people by exchanging their credit for the credit of the banks, would be \$1,500,000,000. This would be the natural result of the adoption of the "*Bank Credit Currency*" principle.

Tenth. The saving to the people, for whatever it costs to carry on the banking business of the country in the last analysis is paid by the people, would be not less than \$111,375,000,—a net gain over present conditions of more than one dollar for every man, woman and child in the United States.

Eleventh. To organize and establish the *United Reserve Bank* is the perfectly natural and evolutionary thing to do. It is the easiest thing to do. It is the most practical thing to do. It is the most scientific thing to do. And, if we would escape the overwhelming disaster that was fast overtaking Germany, it is the only thing to do. It will give us the most efficient and incomparably the most powerful banking system in the world; and, with our natural advantages, easily make us the financial monitor of the whole civilized world.

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Twelfth. By converting the United States notes or greenbacks into gold certificates and preventing the issuance of any more demand obligations of the government the credit of the government would be greatly strengthened and the gold reserves of the country would be protected against the operation of Gresham's Law, a most subtle, dangerous, destructive and irresistible force.

Thirteenth. By compelling the current deposit of all government revenues in the *United Reserve Bank*, the United States Treasury would cease to be a disturbing factor in the commercial operations of the country, and the Secretary of the Treasury would no longer be a potent political factor by using the government funds for partizan and personal purposes.

Fourteenth. If approximately fifty per cent of all the required reserves are combined and united in one common Central Reserve the protection of the weakest and the most remote bank will be guaranteed by more than \$1,250,000,000 gold, while the position of all the banks of the country would become absolutely impregnable and the commerce of the country would be protected and steadied by the consciousness of the presence of so vast a centralized gold reserve which would always automatically keep increasing *pari passu* with the bank liabilities of the country.

Fifteenth. The control and direction of the general movements of credit, so far as they could be affected by this great central gold reserve and its use in the interest of sound and permanent business conditions, should be and would be completely and absolutely removed from all political influences by the appointment of the Court of Finance for life.

FEDERAL RESERVE BANK ACT

If the Federal Reserve Bank Act is to be judged by the principles of banking economics and by those ap-

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proved bank practices which have been wrought out by experience and also in the light of those demonstrated perils to both government and commercial credit wherever they have been bound up together, it is fundamentally and structurally unsound and wrong.

First. It is the most gigantic, complete and potential political machine ever constructed. A legislative enactment that makes it possible for the President to subject, dominate or even influence the commercial interests of the country by removing every member of the Federal Reserve Board, at any time, without cause and by empowering the Federal Reserve Board, in turn, to remove at any time without cause all the directors of the twelve Federal Reserve Banks, should not be tolerated.

Second. When we recall the pernicious activity, mad malevolence, vindictive persecutions and violent diatribes against the bankers of the country on the part of the Comptroller of the Currency, and the questionable practices of the Secretary of the Treasury, and that both of these officials are ex-officio members of the Federal Reserve Board, and when we remember that the President has just taken a hand in directing the action of the Federal Reserve Board by requesting, by letter addressed to one of them, that they start branches in South America to compete with the very banks whose capital and reserves they had filched through the forms of law, it seems about time to call a halt and pitch the whole Act and its sponsors overboard without delay and without ceremony.

Third. The creation of twelve separate, distinct reserve institutions is in utter defiance of all experience and is at variance with sound principles; and this anomalous structure is sure to break down just at the critical time whenever it may come.

Fourth. It cannot be said that the Federal Reserve Act bears any natural relation whatever to our experience or conditions, but was purely a foreign device,

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which was already at the very point of collapse in Germany when transferred here and superimposed upon our conglomerate situation, making our problem more complex, difficult and ultimately far more dangerous than before.

Fifth. The Federal Reserve Act is the most stupendous economic blunder ever committed in the life of this nation because, while it lays the groundwork for practically unlimited expansion of credit, it also sets in motion those forces which will ultimately drive gold out of the country by the gradual substitution of paper credit, in the form of the United States Federal Reserve note, for gold coin. No better device could possibly have been contrived and constructed to put Gresham's Law into operation.

Sixth. Not content with the ultimate and unerring effect of the law in gradually displacing gold coin with government bank debts, the authors of the act to pacify the bitter opponents of the measure, in their ignorance and desperation, greatly reduced the required reserves, although the total cash bank reserves of the country were, at that time, approximately five per cent below the average required by the law of safety long established by experience.

Seventh. Though all experience demanded the complete separation of the functions of the United States Treasury from the banking business of the country, after cutting away the foundations of credit and imperiling the whole superstructure of our commerce and after devising a method for still further weakening the all too slender support of our vast business interests, they tied the government around the neck of the banks and the banks around the neck of the government, with the necessary result that both must be made to suffer the consequence of an alliance that all history has shown to be disastrous.

Eighth. The entire support of the act is involuntary;

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for it has been forced by the bludgeon of the law, since only those who came within the blackmailing limit are to be found within the accursed thralldom of the Act. Of the 20,000 banks outside of the National system only 29 have found any reason or advantage for submitting to the terms imposed,—while in New York, Georgia, St. Louis and possibly many other sections, rival organizations have been created to fight its irksome regulations, proving conclusively its utter lack of adaptation to our peculiar needs and conditions. Under such circumstances it cannot be said that it is any more than another patch on our financial Joseph's coat of many colors, itself being positively the worst and rottenest patch of all our egregious blunders.

Ninth. However unfortunate the country may be in having its banking system dominated and terrorized by the party in power; however great the losses that may be suffered by the agricultural and producing classes by depriving them of those forms of credit to which they are entitled, exceeding today \$1,500,000,000, and resulting in a loss of more than \$110,000,000 annually, both these matters are of small importance compared with the overwhelming commercial disaster that is sure to follow if the Federal Reserve Act should remain upon the statute books.

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